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# Country Development Strategy Statement

## FY 1989

## GUINEA

March 1987

Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

GUINEA

**INTERIM COUNTRY DEVELOPMENT STRATEGY STATEMENT**

**FISCAL YEARS 1988 - 1990**

William C. Mithoefer

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**Chargé d'Affaires**

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Conakry, 2/24/87

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February 24, 1987

Mr. Mark L. Edelman
Assistant Administrator
Africa Bureau
Agency for International Development
Washington, D.C. 20523

Dear Mr. Edelman:

I am pleased to submit to you for your review and approval the interim Country Development Strategy Statement for United States assistance to Guinea for FY 1988 to 1990. I endorse the Guinea AID mission's strategy and believe it contains a realistic assessment of the present economic and administrative reform climate in Guinea.

United States interests in Guinea are derived primarily from political and investment considerations. Guinea has traditionally played a leadership role in regional and international affairs. The change in government brought a shift to a more moderate position with regard to our interests. The most ambitious economic and administrative reform program presently being implemented on the continent is based upon liberalizing economic, administrative and political forces. The success of this program will provide further incentives to other countries and strengthen moderate elements in the government. This success will also offer an opportunity to demonstrate the dismal failure of a Soviet-inspired statist system and the merits of one based on free enterprise and private initiative. Support of Guinea's reform effort will therefore help achieve a major U.S. objective of reducing the historic Soviet and Eastern bloc presence in Guinea.

The Government has recognized that increased private sector participation is the best hope for improving overall economic productivity and efficiency. There are significant American private sector investments in mining operations here. In addition, opportunities for U.S. investment and trade are growing with the continued progress made in the implementation of the reform program. We are pleased that the government of Guinea has taken these steps and are convinced that the structural adjustment and related policy reform implementation programs are the keys to Guinea's future prosperity.

While the proposed assistance program is ambitious and innovative, it does address the major problems Guinea faces and the stated priorities of this Government. The assistance program is also well focused on achievable objectives. The proposed food assistance program will address the balance of payments problem while the basic program concentrates its focus on the policies affecting the role for the private sector throughout the economy, especially in agriculture. Guinea's future depends upon an increase in the productivity and efficiency of its citizens and the strategy focuses on this, along with expanding the opportunities for private initiative. In spite of the limited United States resources that can be expected to be available, the strategy allows us to use our resources to play an active role to influence the movement of Guinea's macroeconomic policy environment towards increased reliance on private market mechanisms for development purposes.

It is evident from the foregoing that the United States has an important interest in Guinea's continued successful pursuit of free market economics and of a more open society. This stake demands that we strive to preserve and build upon the gains already achieved under our USAID program over the past several years. Timely action is therefore required from AID/W in the approval of this interim CDSS if we are to proceed with the orderly preparation of the FY 1988 program that is needed to maintain the momentum built up since September 1986. Also, if we are to continue the strong policy dialogue role we have played since the inception of the reform program, we must be able as soon as possible to advise the GOG and other donors of our development assistance intentions. I therefore look forward to receiving after your final review of this important document on April 1, a cable reporting on the outcome of your review sessions.

Your continued support of the USAID/Guinea program and understanding of the critical role this program plays in the accomplishment of U.S. foreign policy objectives in Guinea is very much appreciated.

Sincerely,

William C. Mithoefer

William C. Mithoefer
Chargé d'Affaires

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# LIST OF ACRONYMS

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|---|---|
| ABS | Annual Budget Submission |
| ADB | African Development Bank |
| AEPRP | Africa Economic Policy Reform Project |
| AID | Agency for International Development |
| AMDP | African Manpower Development Project |
| BSD | Bureau de la Strategie et d'appui au Developpement |
| CBG | Compagnie des Bauxites de Guinee |
| CCCD | Combatting Communicable Childhood Diseases Project |
| CDSS | Country Development Strategy Statement |
| CFAO | Compagnie Francaise d'Afrique Occidentale |
| CIP | Commodity Import Program |
| CMRN | Comite Militaire de Redressement National |
| EEC | European Economic Community |
| ECU | European Currency Unit |
| ENAM | Ecole Nationale des Arts et Metiers |
| EPRS | Economic Policy Reform Support Project |
| FAO | Food and Agriculture Organization |
| FY | Fiscal Year |
| GEPRP | Guinea Economic Policy Reform Project |
| GOG | Government of Guinea |
| GDP | Gross Domestic Product |
| IBRD | International Bank for Reconstruction and Development (World Bank) |
| IDA | International Development Association (World Bank) |
| IDI | International Development Intern |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| KWH | Kilowatts Per Hour |
| MT | Metric Tons |
| NGO | Non-Governmental Organization |
| OE | Operating Expenses |
| OIC | Opportunities Industrialization Centers |
| ORT | Organization for Rehabilitation and Training |
| PC | Personal Computer |
| PDG | Parti Democratique de Guinee |
| PIRN | Programme Interimaire de Redressement National |
| PIP | Public Investment Program |
| PL | Public Law |
| PSC | Personal Services Contractor |
| PVO | Private Voluntary Organization |
| REDSO/WCA | Regional Economic Development Services Office/West and Central Africa |
| SAC | Structural Adjustment Credit (World Bank) |
| SCOA | Societe des Compagnies Ouest-Africaines |
| SPAR | Staffing Pattern Assignment Request |
| UC | Unite de Compte (ADB Monetary Unit) |
| UN | United Nations |
| UNDP | United Nations Development Program |
| USAID | United States Agency for International Development |
| USDH | United States Direct Hire |

## EXECUTIVE SUMMARY

This document sets forth the development assistance strategy that will be used by USAID/Guinea in implementation of its development assistance program from FY 1988 to FY 1990. The document analyzes the country's development potential and the constraints to the realization of that potential, discusses various strategies that could be used by the Mission for helping overcome the constraints, describes and provides a rationale for the choice of strategy, and lays out the resources that will be required for implementing the assistance program.

The government that assumed power in Guinea in 1984 inherited an economy that was basically in ruins. During the 26 years of the First Republic, with the exception of a growth spurt in the mid-1970s generated by the opening up of two new bauxite mines, the economy has experienced years of stagnation or decline. Per capita income and per capita food production had both declined, physical infrastructure was seriously debilitated, and manufacturing industries, which were entirely state-owned, were almost all losing money. The government bureaucracy and the state-owned enterprises became increasingly to be seen as instruments for employment generation or for obtaining illicit income.

The new government has launched a series of economic reforms aimed at rejuvenating the economy through private enterprise. Important features of the reform include a decrease in the size and role of government, the elimination or privatization of almost all state-owned enterprises, and a liberalization of prices and markets, including the market for foreign exchange. The economic reforms are complemented by a public investment program that places priority on infrastructure rehabilitation and assistance to the agriculture sector, especially small farmers. Together, the policy reforms and public investment program amount to a repudiation of the socialist and central planning philosophies of the First Republic in favor of market-oriented economic liberalization.

Notwithstanding the optimism engendered by the policy reforms and the undeniable economic potential of Guinea, the problems that must be overcome for Guinea to resume economic growth are immense. Physical infrastructure, especially roads, must be rebuilt, the production capacities in agriculture and in industry that were lost over the last generation must be replaced, and, perhaps most importantly, economic agents in both the public and private sectors must adopt new attitudes about the relationship between the state and the private sector. No one pretends that any of this will be accomplished in a short period of time.

The dilemma faced by the Mission in the formulation of its development assistance strategy emerged from a recognition of the disparity between the long-term nature of Guinea's development needs and the short time frame in which U.S. resources could be committed. The basic analytic question was: What could U.S. assistance help accomplish in three years that would complement the efforts of the Government of Guinea and the assistance programs of other donors. The answer that emerged was two-fold:

- o Assistance in the consolidation and implementation of the economic policy reform program; and,
- o Assistance in stimulating the creation or expansion of private enterprise.

The Mission proposes to pursue these two objectives through a combination of program assistance, food aid, and project assistance. The program assistance will include cash grants and technical assistance provided through the Africa Economic Policy Reform Program and a Commodity Import Program. Food aid will be through the PL 480 Title I and Food for Progress Programs. Local currencies generated through the cash grants and the food aid will be used to create a credit program for private businesses and to finance the local cost components of training programs. Project assistance will be limited and will consist mainly of short-term technical assistance and training aimed at improving the capacities in government to formulate and implement policies conducive to provate sector growth and at improving the capacities of the private sector to make use of public and private sector services. Some local currency will also be programmed for road rehabilitation and some technical assistance will be used to carry out studies needed for determining levels of food aid and the content of the commodity import program, and generate other data needed for planning and decision making.

The dollar resources requested for the implementation of this program are $7.6 million in 1988, $8.2 million in 1989 and $10 million in 1990. These levels are near currently projected funding levels for Guinea. The value of food aid requested is at its current level of about $12 million. In order to manage these funds, the Mission is requesting a change in the composition of its USDH staff and a small increase in its host country national staff and U.S. personal services contractors. The bringing on board of the full staffing complement will require an increase in the operational expense budget.

## FORWARD

The development of USAID/Guinea's interim strategy followed the guidance contained in the Agency's "Blueprint for Development" and "The U.S. Assistance Strategy for Africa 1987-1990". Based on the impressive reforms implemented by the GOG in 1985 and 1986, the Mission revised its strategy to support the GOG's adoption of more appropriate macroeconomic policies and measures to promote private sector growth. The new strategy allows AID to respond quickly to the implementation of positive GOG economic policy actions and enables the Mission to play an active role in encouraging additional reforms. The strategy fits the Bureau's "Strategic Plan" which emphasizes the coordination of our assistance with other donors and a shift of U.S. resources to those countries which demonstrate, by their performance, that they are pursuing effective reform and development policies.

As designed, the Missions's strategy followed the major components of the Agency's development approach, i.e. policy dialogue, institutional development, increased private sector opportunities, and technology research, development, and transfer. Where appropriate to the circumstances in Guinea, it also addresses AID's problem focus.

### Policy Dialogue

Over the last year the Mission has continued its policy reform dialogue. Mission staff discussed, at every opportunity, the need for fundamental economic policy reforms. Discussions were held with GOG officials on the need for appropriate price policies in the sale of food assistance commodities and for greater public sector management efficiencies. Through the design of conditions precedent to program assistance, the Mission identified a number of economic policy issues that still need to be addressed.

The Mission plans to continue its reform dialogue and to use the leverage it has to pursuade the GOG to continue its economic policy and structural changes. Through project funded technical assistance, the Mission will help the Government develop and implement further reforms. Every appropriate occasion will be used to remind the GOG that economic policy reform is a continuous process; although the first steps toward structural adjustment and reform have been taken, additional policies supportive of rehabilitation and growth still need to be formulated and a number of announced policies still need to be implemented.

### Institutional Development

Traditionally, USAID/Guinea's institutional development efforts were limited to the Guinean institutions directly involved with the implementation of its projects. With the re-direction of the bilateral assistance program and the phase-out of existing bilateral projects, the Mission's efforts will concentrate on supporting the GOG's economic reform and structural adjustment program. Previous institutional development activities suffered from human resource inadequacies, as well as from economic and administrative constraints. While development efforts tied to specific institutions will be held in abeyance during the interim CDSS period, USAID/Guinea will continue to sponsor in-country and regional training in management and specific technical areas complemented by limited long-term training. This policy will be re-examined during the preparation of a full CDSS proposed for FY 1989.

Private Sector

The policies of the previous regime, which emphasized government control and regulation and centralized economic decision-making, stifled private sector initiatives. The reform program has opened the economy to the private initiatives, but ambivalent government attitudes and policies toward the private sector remain. The Mission's strategy for promoting an increased role for domestic and foreign private investment in Guinea will focus on a continuous policy dialogue with the Government. The aim of this dialogue will be to encourage the GOG to adopt policies that create an economic and political climate conducive to the growth of the private sector. The Mission's dialogue with the GOG will emphasize policy reforms that decrease the demand for scarce public sector expenditures and administrative and managerial skills. Programmatically, the strategy will be limited to a concentration on the agricultural sector, the sector which offers the most hope for economic diversification and growth.

AID's private sector activities will focus on identification of private sector opportunities and on improvements in the public administrative and regulatory environment that enable the private sector to take advantage of increased opportunities. Direct private sector support will include present and planned program assistance activities aimed at changing policies through conditions precedent and through the provision of production inputs; the earmarking of local currencies for private sector targeted domestic credit programs; and, project (mainly technical) assistance, to identify opportunities and to help the private sector take advantage of them as they occur.

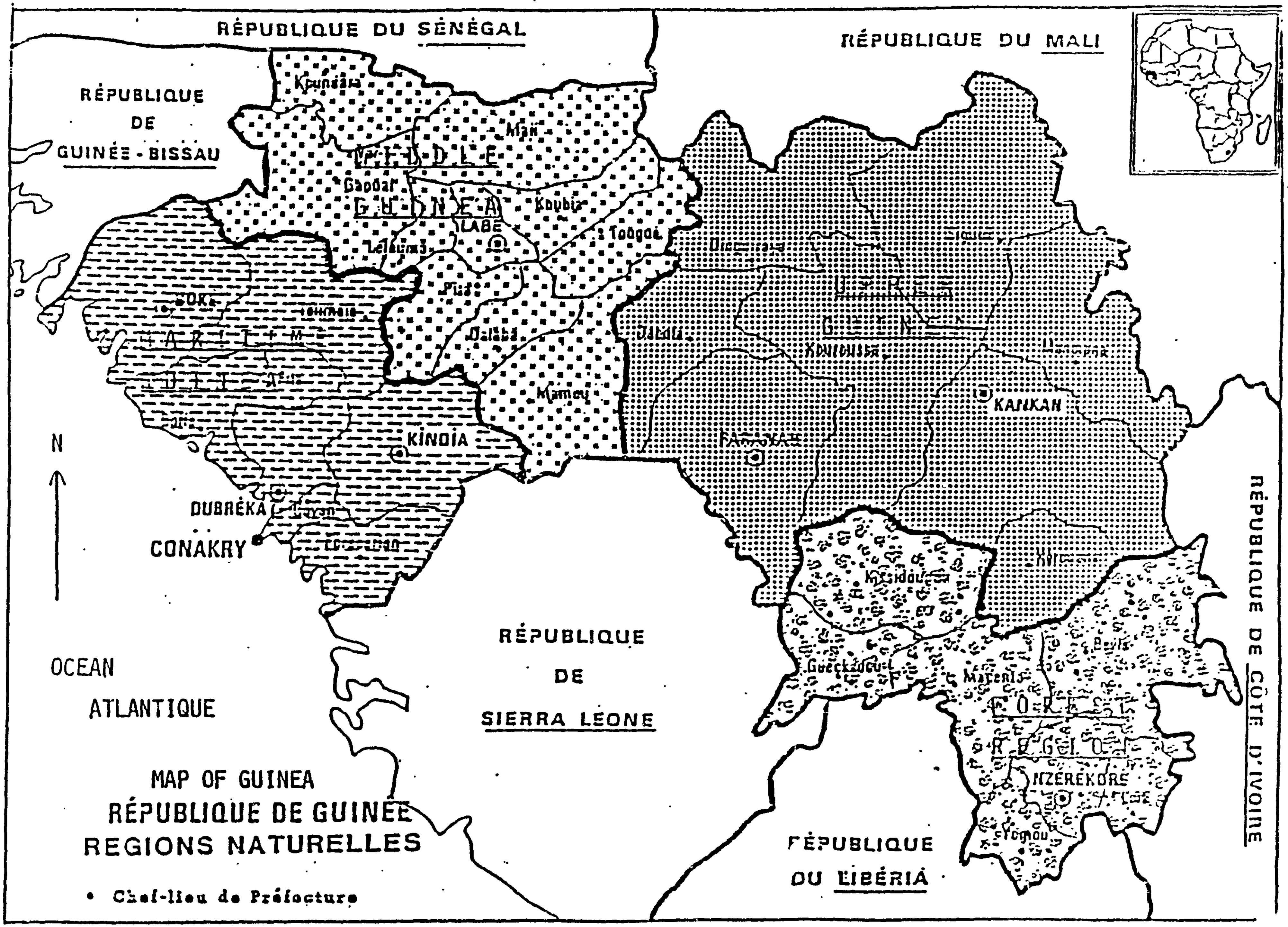
Technology Research, Development, and Transfer

Recent USAID project experience in the agriculture sector revealed that the GOG is unable to support traditional research and extention activities. The Mission has therefore revised its strategy to concentrate its efforts on continuous economic policy reform dialogue and on provision of assistance to the private sector. If the economic policy and structural framework improves, activities specifically targeted to technology research, development, and transfer will be explored with the objective being to incorporate such activities into the design of the CDSS in FY 1989.

Problem Focus

The problem focus of the interim CDSS will address only those problems that support the GOG's efforts to implement economic and administrative reform within the next three years. The successful implementation of the reform program will have a direct and positive impact on the country's financial stability and present unemployment and underemployment levels. Hunger will be addressed through food assistance to provide the GOG with the stability and assured resources needed during this period and through policy dialogue aimed at appropriate domestic producer prices and through policy dialogue aimed at appropriate domestic producer prices. The tying of food assistance to the implementation of specific policy reforms will encourage the development of appropriate policies. These policies will lay the framework within which the Mission can develop agricultural sector interventions in the 1990's. The remaining problem foci - health, education, and population - will not be directly addressed during this period because of the need to concentrate all resources on support of the reform program. Other Agency interests, e.g. women in development, natural resources, energy, and increased coordination and support of Peace Corps and private voluntary organizations, are also not specifically targeted for the same reasons.

The Mission believes the successful completion of the program contained in its interim CDSS will be to bring about the changes needed to put Guinea back on a more promising track of growth and development. The strategy provides the appropriate emphasis given Guinea's specific development circumstances and opportunities. It also lays the basis for the return to activities more in line with the long-term development process during the next decade.


RÉPUBLIQUE DU SÉNÉGAL
RÉPUBLIQUE DU MALI
RÉPUBLIQUE DE GUINÉE-BISSAU
Koundara
Mali
MIDDLE GUINEA
Gaoual
Koubia
LABE
Tougué
Lélouma
Pita
Dalaba
Mamou
KINDIA
DUBRÉKA
CONAKRY
KANKAN
Kissidougou
Guéckédou
Macenta
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OCEAN ATLANTIQUE
RÉPUBLIQUE DE SIERRA LEONE
RÉPUBLIQUE DU LIBÉRIA
RÉPUBLIQUE DE CÔTE D'IVOIRE
MAP OF GUINEA
RÉPUBLIQUE DE GUINÉE
REGIONS NATURELLES
• Chef-lieu de Préfecture

INTERIM COUNTRY DEVELOPMENT STRATEGY STATEMENT
USAID/GUINEA
FISCAL YEARS 1988-1990

This document describes the development assistance strategy that will be pursued by the United States AID Mission in Guinea in fiscal years 1988-1990. It is divided into three sections. The first section presents an analysis of the country's development potential and constraints; it focuses especially on the efforts of the government of Guinea (GOG) to address its development problems through a comprehensive package of economic reform and a new three-year public investment program. The second section sets forth the optional development strategies considered by the Mission and presents the rationale for the option selected. The third section presents the resources that will be required for implementation of the proposed program.

## DEVELOPMENT ANALYSIS

### Socioeconomic and Political Profile

#### Population

In 1983, the population of Guinea was, according to a census conducted in that year, 5.8 million. With a population growth rate estimated at between 2 and 2.5 percent, the Guinean population in late 1986 would be 6.1 to 6.2 million. About 50 percent of the population is in the productive age bracket between 15 and 65; 47 percent are under 15 years of age, only three percent over 65. About 27 percent of the population lives in cities or towns with populations exceeding 10,000. Only eleven towns have populations greater than 35,000, with Conakry by far the large with a population of 800,000. The rural-urban migration rate is estim i at six percent annually.

Except for the large concentration of people in Conakry and a somewhat higher population density in Middle Guinea, the population is fairly evenly dispersed throughout the country. About 30 percent of the population lives in Middle Guinea, the part of the interior marked geographically by the mountain area known as the Fouta Djallon. Another 30 percent lives in Maritime Guinea, the region along the coast that includes Conakry. Upper Guinea, which covers the northeast part of the country through which pass the headwaters of the Niger River, is home to about 20 percent of the population. The remaining 20 percent lives in the Forest Region located in the extreme southeastern portion of the country.

The Guinean population is composed of a large number of ethnic groups who speak some two dozen distinct languages. The most important among these are the Peulh (Fulani), who live in largest numbers in the Fouta Djallon; the Malinke, who are concentrated in Upper Guinea; the Soussous, who are found in greatest numbers in the Maritime Region; and the ethnic groups of the Forest Region, including the Guerze, the Toma, the Kissi, and the Mano.

The dominant religion in Guinea is Islam. About 80 percent of the population is Moslem, including most Peulh, Malinke and Soussous. In the Forest Region, by contrast, Islam is less important than Christianity and traditional religions.

Government and Politics

From independence in 1958 until April 1984, the Guinean governement was run through the Marxist-oriented Parti Democratique de Guinee (PDG) under the autocratic rule of Ahmed Sekou Toure. The dominant strain in government policy was central planning and state control of all social and economic sectors. A vast bureaucracy was created under thirty-two separate ministries and dozens of state-owned enterprises.

On April 3, 1984, one week after the death of Sekou Toure, a group of army colonels overthrew the remnants of the Sekou Toure regime, abolished the PDG and the secret police, and released all political prisoners. The Second Republic, organized under a 17-person Military Committee for National Recovery (CMRN), restored freedom of speech, association and travel, and set about systematically to disassemble the political and economic structures of the First Republic.

The current government is composed of 31 members organized around 14 full ministries and 12 secretariats of state. In the interior, the country is divided into four regions, eight provinces and 36 prefectures. Prefectures are subdivided into sous-prefectures, which are in turn sub-divided into rural or urban "communities". Also, four additional ministers represent the President as resident ministers in the four regions of the country.

During the First Republic, Sekou Toure attempted to forge a sense of national unity through the tight control and pervasive influence of the PDG. The President of the Second Republic, General Lansana Conte, has also exhorted the population to set aside its differences in the name of national unity. However, Guinea today remains divided politically along the same lines as it was under the First Republic: regionalism, ethnicity, and the cultural/economic gap that divides the governing bureaucratic elite from the masses of the Guinean population.

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## The Economy

Based on its natural resources, Guinea is a country of great economic potential and diversity. Elevations and humidity range from the maritime littoral with rainfalls of up to 4000 mm per year, to the Fouta Djallon highlands with moderate rainfall and altitudes attaining 1500 meters, to the relatively dry, sparsely vegetated plateaus of northeastern Guinea with rainfalls as low as 1300 mm per year, to the hilly and heavily forested southeastern areas with rainfalls in the area of 2000 mm per year. The country is abundantly endowed with rivers, alluvial plans, bottomlands and swamps, and has about 70,000 square kilometers of arable land. In terms of mineral resources, Guinea is already the world's leading producer of bauxite and is blessed also with rich deposits of gold, diamonds, iron ore and graphite. However, because of mismanagement of the economy during the First Republic and the extremely primitive state of the country's communications and transportation infrastructure, most of Guinea's natural resource potential remains unexploited.

Despite the growth of mining over the last decade, the rural sector (mainly agriculture, but also livestock, fishing and forestry) remains the most important economic sector domestically, contributing 42 percent to GDP. The secondary sector (mainly mining, but also manufacting, utilities and construction) contributes 22 percent to GDP, with the remaining 36 percent derived from the tertiary sector (mainly trade and public administration).

The external account is dominated by the mining sector with about 97 percent of export receipts derived from the sale of bauxite and alumina. Bauxite and other mineral mining in Guinea is carried out mainly on an enclave basis by foreign companies granted concessions by the Guinean government. Individuals and smaller operations are, however, still important in gold and diamond mining.

## Employment and Income

Per capita income in Guinea is estimated at $300, but this statistic has little meaning in the aggregate because of the vastly different survival strategies of various population strata. About 80 percent of the working population survive within a semi-subsistence economy based on agriculture, livestock production and/or fishing with cash needs satisfied by sales of agricultural surpluses, earnings from occasional labor, petty commerce and remittances. (It is estimated that between 500,000 and 1.5 million Guineans are living outside the country.)

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A growing number of Guineans, estimated now at 12 percent of the working population, earn their living primarily in the "informal sector", comprising petty commerce, cottage industries, and services. The informal sector was small and sometimes underground during most of the First Republic since private enterprise ran counter to official ideology. But beginning with the partial liberalization in the last years of the First Republic and gaining momentum since 1984, the informal sector has been expanding rapidly in the 1980s.

The formal or modern sector, which can be differentiated from the informal sector by the presence of salaried employees, is small but highly visible and politically important. During the First Republic this group consisted almost entirely of civil servants, employees of state owned enterprises, and the armed forces. Currently, salaried employment is still provided mainly by the public sector, but, with the privatization of several parastatals (most notably the banks) and the emergence of small and medium-sized industrial enterprises, restaurants, shops, and other private businesses in Conakry, the group also consists of a growing number of salaried individuals in the private sector. A recent ILO study estimated the modern sector labor force at 170,000 (about six percent of the working population). Of this number, 88,500 were employed, according to a special census completed in 1986, in the public sector (including parastatals), 45,000 were defined by the ILO as "unemployed", and the remainder, 37,000, were, employed in the private sector. Employment pressure in the private sector is likely to increase greatly in the near term, however, because a key element of the current economic reform is an initial reduction, by about 26 percent (23,000 employees), in the size of the civil service.

In actuality, there is a great deal of overlap in individual employment among the rural, informal and formal sectors. Many salaried employees maintain rice farms or livestock herds in the rural areas or small businesses in the urban informal sector. The reason for this is that very few formal sector employees, are able to provide for themselves and their families solely on public or private sector salaries. In January 1987, the averge monthly salary (including various allowances) in the civil service was 16,500 FG (about $41). At the same time, it was estimated that the minimum monthly survival income in Conakry for a family of four was 50,000 FG (about $125). Thus, most formal sector employees must supplement their salaries with income from other pursuits.

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Structure, Performance and Prospects of the Economy

Structure

Socialist ideology, emphasizing a highly centralized economy, guided most economic planning throughout Guinea's post-independence era. Prior to the start of the reforms, the Guinean economy was dualistic, divided between the official, formal, and non-official, parallel, sectors. The official sector, which operated through a controlled and complex system of administrative prices linked to the overvalued exchange rate, accounted for 25% of GDP. The remaining 75% of economic output was produced by active, but at various times illegal, parallel market operations. The non-official sector met almost 80% of urban consumer demand and virtually 100% of all marketed consumer goods outside of Conakry. It was supplied chiefly by smuggled or pilfered imports or imports financed through non-official exports of agricultural produce or gold and diamonds to neighboring countries.

Most of the economy produced at levels well below potential because of inadequate incentives including price and exchange rate policies. The agriculture sector was especially hurt by adverse policies. Food crop production failed to keep pace with population growth. Cash crop production declined dramatically as low producer prices led farmers to turn to subsistence farming, or in the case of those near border areas, to clandestine exports. Animal husbandry also suffered. Officially determined market prices led to most of the country's herds being sold in neighboring countries. Forestry resources were severely reduced through indiscriminate logging operations for sales in the Ivory Coast and Liberia. Fishing resources also failed to produce near potential levels.

The mining sector, with the decline in agricultural exports, now dominates the economy. Starting in the 1970's Guinea became almost exclusively dependent on bauxite and alumina exports for its foreign exchange earnings. The manufacturing sector, consisting of agro-industral, construction, chemical, and textile operations, operated at less than 20% of installed capacity and is entirely state owned. It contributed only 2% of GDP and suffered, like other sectors of the economy, from lack of incentives, excessive governmental interference, and inappropriate exchange rate and price policies.

The banking sector was also entirely state controlled. Trade and commerce, while dominated by state monoplies, were eventually overtaken by the private sector which emerged in recent years to assume a leading role.

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The country's financial situation became seriously eroded. This situation is attributable to the poor performance of state enterprises. Government revenue fell as these enterprises drained scarce resources from the central budget. Transfers to public enterprises reached 40% of total receipts in recent years. In addition, with the increased role of the private sector through parallel market activities in trade and commerce, tax and customs duty receipts fell. As a result of a quarter century of mismanagement, the Guinean economy was brought to the brink of collapse in the early 1980's in spite of the country's important agricultural, mineral, and energy resources.

The present government moved quickly to remove obstacles to agricultural production and marketing. Within the first month of coming to power it:

- accelerated the retreat from collectivization and abolished agricultural marketing agencies that were demonstrated failures;
- eliminated internal roadblocks to the movement of agricultural produce; and,
- abolished compulsory sales of produce to state enterprises.

The early reforms were followed by an eighteen month period of appraisal and planning during which the GOG developed its concept of rolling three-year development planning and published the first plan, the Programme Interimaire de Redressement National (PIRN) for 1985-1987. The GOG's initial implementation of reforms began when it promulgated a new banking law, in March 1985, and the published the country's first investment code, in October 1985. The GOG also carried out extensive discussions with the IMF, IBRD, and various bilateral assistance agencies on future reforms and additional assistance.

Since the formal start of the reform program in late 1985 several significant actions have been taken by the GOG to address its economic problems.

- The public banking monopoly was abolished with public banks closed and three new private banks were established.
- The currency was devalued from 23 to the dollar in late 1985 to its current level of about 400 to the dollar, the new Guinean franc was introduced in early 1986, and a weekly foreign exchange auction established.

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- The official producer price was increased by 300 percent, from 15 to 60 GF/kilo for palm kernels and by almost 570 percent, from 60 to 400 GF/kilo for coffee.
- The consumer price of rice was raised 300 percent, from 20 to 80 GF/kilo in January 1986 and increased again in June 1986 to 100 GF/kilo.
- Gasoline prices were also increased 300 percent, from 30 to 115 GF/liter in late December 1985, with a further increase to 140 GF/liter in February 1986.
- Electricity rates rose from 6 to 67 GF/KWH as of May 1, 1986, a 1000 percent increase.
- The Government announced its intent to privatize all of the 150 state-owned enterprises with the possible exception of utilities and the national printing office.
- The completion of a civil servants census and the announcement of a program to undertake an initial 30 percent reduction in the size of the civil service.

The IBRD was encouraged to play a major role in public investment planning. The reform momentum continued with the final approval of agreements with the IMF and the IBRD signed in early 1986. Civil service reform was begun through modest salary increases, a comprehensive census of civil servants, and the development of a program for accelerating reductions in government personnel. In 1986 the GOG also issued new mining and petroleum codes, and on January 3, 1987, a new, more liberal investment code was published.

<u>Performance</u>

Statistical data in Guinea are subject to a very high margin of error and should be used only as an indicator of trends. Growth in GDP in constant prices was less than 2% per annum during the last four years of the previous government. It increased to 5% in 1985 and is estimated at approximately that level in 1986. Some of the growth in 1985 is probably the result of increased commercialization of agricultural production through official, recorded channels rather than an actual increase in GDP. Real growth in 1985 originated from increased imports for consumption with real consumption rising further in 1986. Central government expenditures provided most of the resources to fuel increased consumption. This increase was financed through greater domestic borrowing in 1985. While the national budget remained the primary source of expansionary financing in 1986, there was a marked shift in resources

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towards external accounts, i.e. debt relief, drawings on foreign assistance, and mineral export taxes. Both the agricultural and mining sectors increased in importance in the national accounts in 1986 with the opening of new gold and diamond mining operations and the return to official channels of coffee exports and food production. Although agricultural production for the domestic market of certain commodities, e.g. meat and eggs, had increased at respectable rates since the late 1970's, subsistence production stagnated. Per capita availability of basic foodstuffs declined until the start of the reform program in December 1985. Afterwards domestic production and consumption levels rose.

Although data on government financial operations are not adjusted for the effects of major price rises in early 1986, it is clear that, as a proportion of expenditures, budget revenues increased, the deficit declined, and external assistance assumed an important role in financing the deficit. The abandonment of the system of administered pricing in favor of a market determined price structure resulted in a first quarter surge in consumer prices led by imports, particularly petroleum products and public utilities. By the end of 1986 prices were relatively stable, although the continued gap between the official foreign exchange auction and the parallel market rates, especially for the U.S. dollar, suggest the need for further refinement of the auction system.

The increase in imports in 1984-1985 was concentrated in the public sector account. However, in an early indication of the impact of recent policy reforms, a major change in imports occurred when a shift from the public to the private sector account was recorded in 1986. Export receipts declined in 1984-1986 as substantial increases in recorded exports of coffee, diamonds, and gold were unable to offset the large decline in the value of bauxite and alumina exports. This decline occurred in spite of pricing arrangements between the GOG and Western mining companies that protected receipts through early 1988 from falling world market prices. The further deterioration in the already negative current account balance was financed by an increase in arrears on long-term public external debt. The situation would have been worse had not lower petroleum prices and increased grant assistance disbursements resulted in a fall in the current account deficit.

Guinea's medium and long term public debt was estimated at $1.3 billion at the end of 1985. This estimate includes about $290 million in arrears on principal and interest payments. Guinea has secured additional short-term or bridge financing through debt relief. Paris Club negotiations in April 1986 resulted in the initial re-scheduling of approximately $200 million of debt due in 1986 and early 1987. Repayment will begin in 1990. Prior to the Paris Club debt re-scheduling, the debt service to export receipts ratio was 28.5%. It fell to 14.4% with re-scheduling. However, present calculations show it rising in 1987 and each subsequent year. (For further statistical data on the Guinean economy see Annex A tables.)

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Negotiations with the Conakry Club creditors (primarily Eastern bloc countries) continue. Debt to these creditors represents approximately 48 % of Guinea's total external debt. A revenue guarantee agreement negotiated with Western controlled mining companies will maintain the value of exports of alumina and bauxite during 1985-1987 despite falling world market prices and the declining value of the U.S. dollar. Government receipts should increase by approximately $150 million from a special minerals export tax. The revenue guarantee agreement will end in 1987; and, the special minerals export tax will lapse in 1988. The termination of these agreements will have negative impact towards the end of the planning period as rescheduled debt repayments commence and the affected mining companies become net capital exporters.

The PIRN, the present government's first planning document published in November 1985, realistically identified the need for accurate information about the economy and called for sectoral studies to be carried out for future planning with the help of technical assistance. In the same vein, the PIRN set the development of planning and management capabilities as a very high priority; proposed, in general terms, the decentralization of the government; identified the need for extensive institutional re-organization; and, candidly appraised the appalling state of the country's infrastructure.

During 1986, some progress was made in filling information gaps but not enough to provide sufficient, reliable data for planning purposes. In spite of this, the GOG developed its Public Investment Program (PIP) for 1987-1989 focused on the rehabilitation of infrastructure which represents 34.2% of the total PIP. The other sectors in which projects will be financed are agriculture, 27.4%, mining and industry, 17.1%, social, 17.2%, and general administration, including decentralization and planning, 3.8% in 1987. It should, however, be noted that the present draft of the PIP emphasizes the need for additional studies during its first year. The document requests financing for these studies as well as projects. Most of the investment funds to be committed during the life of the PIP are expected to be from external sources. There is little in the way of priorities among projects within sectors and the relationship of many of the projects to the GOG's sector strategies is not clear. In addition, an increase in projects will severely tax the government's weak administrative and managerial capabilities.

Guinea's medium-term development strategy options are limited by the projected meager, often negative net foreign resource in-flows and by underdeveloped human, institutional, and physical capacities outside of the mining sector. The period between 1987 and 1990 will see the GOG continue to allocate its available resources to the public investment program. Private sector initiatives will be encouraged in commerce,

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industry, and agriculture. While some state intervention in pricing, investment policy, agricultural planning, and the foreign exchange market is expected to continue despite the reforms, it is intended that the private sector will play a major role in overall economic growth. The state will rely on free-market mechanisms to capture needed resources. To this end, private ownership or participation in state enterprises is sought, commercial agricultural production encouraged, and prices of most inputs, especially those imported, adjusted to reflect actual costs. Fiscal, monetary, and public investment policies will be developed to support and encourage the private sector and the role of free-market forces in the economy.

To support the shift towards private, free-market operations in the Guinean economy, the IMF and an IBRD led donor assistance group have committed significant financial resources to Guinea. The IMF entered into a thirteen month $36 million stand-by agreement in early 1986. The World Bank group committed $42 million to an IDA/Special African Facility structural adjustment credit (SAC) program. An additional $80 million of co-financing were made available by five bilateral donors, France, Japan, West Germany, Switzerland, and the United States. The IMF arrangement, the first of several expected, is designed to preserve the viability of Guinea's new foreign exchange system and to dampen domestic price inflation. The World Bank's SAC and related bilateral financing are essentially bridge financing to provide balance of payments funds for current imports while Guinea restructures its economic priorities and institutions. The bulk of the assistance will be disbursed by the end of 1987, at which time it is planned for imports for the Public Investment Program to increase rapidly. Imports for current consumption are expected, at that point, to be financed by current private sector export earnings. The PIP will be the primary vehicle for investment planning for the remainder of the decade. It is projected that much of Guinea's economic growth through 1990 will result from the PIP-financed projects and the increased economic activity resulting from on-going and completed public works projects. The private sector, through increased agricultural production, is expected to account for the balance.

## Prospects

Guinea's policy environment will have a substantial effect on the direction and rapidity of the country's economic growth. Major shifts in emphasis from the public to the private sectors and from mining to commercial agriculture have been the result of real policy changes effected by the present government. However, given the difficulties and ambiguities involved, and noting that the structures to be changed are both political and economic, it is not surprising that delays have occurred in the full implementation of some elements of the reform program. In terms of the original and very ambitious planning schedule, there were delays in:

- the publication of a revised and more liberal Investment Code and Commercial Law;
- improvements in tax and customs collection;
- the establishment of the process and mechanisms needed to reduce total public sector employment;
- the privatization or closure of certain public enterprises; and,
- the enunciation and implementation of the administrative decentralization policy.

While it is understandable that the GOG must resolve its internal conflicts before it can effectively address the country's severe constraints to development, the time bought through debt re-scheduling, preferential price guarantee arrangements for mineral exports, and bridge financing will be short-lived. Furthermore, much of the foreign exchange made available through these short-term measures is being used for consumption rather than investment purposes. This pattern will exacerbate the country's medium-term problems.

Guinea's medium-term growth prospects are not particularly good. Certainly, there are no prospects for an early take-off of growth. In fact, the present PIP target of a 5% growth rate for 1987-1991 is unlikely to occur since it is clearly dependent on the implementation in this relatively short period of a major infrastructure construction and rehabilitation program. Financing for this program, to be undertaken largely with external assistance, has not yet been secured. Limited private industrial activity is expected to provide the balance in expected growth. The policy environment will be critical to the growth of private sector activity. Without strong and positive policies, the growth of the private sector will be restricted to commerce and services, including banking. There will be little movement into activities involving medium-term risk unless that risk is minimized.

The GOG's present growth strategy assumes that domestic savings and private investment will gradually replace some external financing and that domestic savings will increase over consumption. The underlying assumptions supporting this growth strategy must, however, be viewed with caution. First, it is not apparent how the requisite domestic savings will be mobilized. There is presently only one bank branch outside of Conakry and no effective local institutions performing fiscal functions such as tax collection. While incentive price policies produced immediate and positive responses through increased supplies of staple foods for the market, the economic environment and infrastructure do not

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yet exist that will enable the capturing and channeling of the increased production to savings and investment. Second, the nature of effective demand in Guinea is not sufficient to support a high level of domestic savings. Guineans are poor, with a high marginal propensity to consume rather than save, and population growth projections will probably exacerbate this tendency over the long run. Third, while agricultural production and recorded exports will rise in the near-term, the prospects for rapid growth, based on commercial agriculture, are limited. Guinea's former tropical products export markets in Europe were lost to neighboring countries, e.g. the Ivory Coast in the 1970's; the country's agricultural support infrastructure is in poor condition and improvements will require several years and the investment of large amounts of capital; and, projected stagnant or falling world demand for most of Guinea's export crops at a time of growing competition from other exporters imposes the need for increased production efficiency, something the country will probably not be able to achieve before the mid-1990's.

Guinea must reduce its overdependence on bauxite and alumina, in light of the unfavorable prospects for these commodities. The most immediate and promising means of reducing this dependence is through the promotion of offical exports of gold and diamonds. This will require the maintenance of a low disparity between the official and parallel market currency exchange rates and an increased role for the private sector, especially the banking system, to officially purchase these minerals from private miners who are currently smuggling an estimated $40-60 million of gold and diamonds out of the country every year. The statistics on clandestine trade of these two minerals added to illicit border trade in commercial and agricultural products strongly indicate that most of Guinea's economy is still outside official circuits.

Agriculture represents the only opportunity for the elimination of Guinea's dependency on mineral exports and the rapid diversification of its economy. The agriculture sector reacted quickly and favorably to the adjustments in prices and the exchange rate and, in the case of coffee, to high world market prices. (Official coffee exports rose from 2,000 MT in 1985 to approximately 8,000 MT in 1986). Although statistical data is not available, field observations indicated that the hectares planted in rice in 1986 were well above 1985 levels. Domestic production of other foods also increased. The GOG, with donor assistance, is preparing to increase palm kernel and rubber production and is considering the development of a program to plant higher yielding coffee varieties. Food imports are expected to fall if adequate price incentives are maintained. Some rice imports will, however, be needed through the end of the decade until roads, storage facilities, and other infrastructures are rehabilitated. Increased production coupled with limited national marketing possibilities because of poor infrastructure will result in growing official trade with the border areas of neighboring countries. Growth in this trade will also occur as the result of increased productivity.

## Sector Analyses

### Food and Agriculture

With plentiful rainfall and good soils in most parts of the country, Guinea is generally considered to possess great agricultural potential. In fact, Guinean farmers, have, in the past produced sufficient quatities of most food crops to provide for the urban as well as the rural population, and produced also the raw materials for one of the most thriving agricultural export industries in West Africa. At independence in 1958, the country imported only 7,000 MT of rice. Agricultural exports (coffee, pineapples, bananas, palm kernels, mangoes, quinine, spices, timber) exceeded the value of agricultural imports by 400 percent and provided 76 percent of the value of all export receipts.

Since independence the performance of the agriculture sector has markedly deteriorated. Between 1970 and 1980, per capita agricultural production declined at an average annual rate of 2.6 percent. Of the country's estimated 7 million hectares of arable land (28.5 percent of total territory), only 1.4 million hectares are under cultivation and yields are extremely low for most crops. As a result, domestic food production now covers less than 75 percent of food needs; food imports, which represent 20 percent of the general import bill, exceed the receipts from agricultural exports by about $35 million; and agricultural exports constitute less than three percent of the value of all export receipts. In 1985, domestic production of Guinean rice was estimated at only 250,000 MT while rice imports were 97,000 MT. Estimates of domestic rice production for 1986 are not yet available, but according to port authority statistics rice imports in 1986 totaled 148,000 MT. The increase in imports from 1985 to 1986 is explained partially by demand represented by the poor harvest of 1985 and also by the fact that 1986 was the first year in which private traders were able to import and sell rice freely.

The statistics for agricultural exports in 1985 paint an equally dismal picture. Banana exports were zero (compared to 100,000 MT in 1955), pineapple exports were nearly zero (compared to 10,300 MT in 1972), official coffee exports were 2,000 MT (compared to 12,400 MT in 1966) and palm kernel exports were less than half the level of the 23,000 MT attained in 1963. It is estimated that this decline in agricultural exports represents a loss of nearly $100 million per year in potential foreign exchange earnings.

The poor performance of the agricultural sector is a result mainly of the agricultural policies of the First Republic, which discriminated against the sector in general and against small farmers in particular.

Farmers were taxed in kind, through labor, and indirectly through pricing and currency policies. The tax was a contribution to the state of 60 kilograms of rice per adult. Farmers were forced to contribute their labor on one or more of the 300 state-run collective farms. The extreme overvalution of the currency and the artifically depressed prices for farm produce, coupled with the subsidized distribution of imported rice to civil servants in Conakry, constituted effective taxes against farmers in favor of urban consumers. In return, farmers received almost no assistance as agricultural inputs, expertise and credit were directed exclusively to the state farms. As a result, most small farmers abandoned production of cash crops, except for coffee and other crops that could be smuggled across the borders of the Ivory Coast, Liberia, or Sierra Leone. Farmers also cut back on food crop production to the levels needed for their own consumption and to pay taxes.

State control of marketing, distribution, and agro-processing further contributed to the inefficiency of the sector. Legally, all surplus production had to be channeled through state marketing agencies and producer prices were fixed at levels well below market rates. Insufficient production from the state farms, as well as from individual farmers, deprived the agro-processing industries of raw materials and the penury of foreign exchange deprived the state farms and the industries of spare parts for tractors and machinery. Meanwhile, the costs of transportation and distribution soared rapidly as fuel prices increased and the country's road system deteriorated. By the early 1980s, it was estimated that the state farms and most agro-industries were operating at perhaps 20 percent of capacity.

Analysts agree that revitalization of the agriculture sector is an essential ingredient for Guinean economic recovery. Agricultural recovery will depend in the short-term on developing and maintaining agricultural policies that provide incentives for farmers to increase and diversify production and for private traders to market agricultural products in Guinea rather than across borders. In the longer-term, sustained agricultural growth will require increased investment in road rehabilitation, in research and extension, and in the restoration of lost production capacity, particularly for plantation agriculture.

A great deal of progress has already been made on the policy side. A domestic resource cost analyis carried out by the World Bank in 1984, demonstrated that, if the official exchange rate of the Guinean currency were adjusted from 20 sylis (now Guinean francs) to the dollar, which was the rate at that time to 100 sylis to the dollar, Guinea would enjoy a strong comparative advantage in the exportation of both rice and coffee; at present the official exchange rate is about 400 Guinea francs to the dollar. Other recent policy changes that favor agricultural recovery include the abolition of the in-kind tax on farmers, the elimination of the state farms, a five-fold increase in the official consumer price of rice, the elimination of the subsidized rice ration for civil servants, the closing of all state-owned commercial stores in the provinces, the abolition of commercial roadblocks, and the legalization of private trade in all agricultural commodities. In addition, government policy statements have clearly accorded priority to the rural sector, with emphasis on the attainment of food self-reliance and on an expansion and diversification of agricultural exports.

A principal objective of USAID/Guinea over the next three years will be to sustain the momentum of reforms that favor production responses by small farmers and an increased role for the private sector in agricultural processing and marketing. Local currency resources will also be made available to assist in rehabilitation of transport and marketing infrastructure. By the end of the CDSS period, the policy and infrastructure conditions should be such that USAID/Guinea will be able to relaunch a more directed program of assistance to private farmers and agricultural industries.

Industry and Commerce

At the crest of its socialist zeal in the mid-1970s, the government of the First Republic formally prohibited private industry and commerce. An economic police force was formed to arrest anyone caught engaging in commercial transactions that did not pass through the state. The inevitable result of these restrictions was, of course, the emergence of a flourishing underground economy based largely on smuggling.

An exception made by the First Republic to the ban on private industry was in the mining sector. Long-term concessions were granted to foreign companies for the mining of gold, diamonds, iron ore, and, especially, bauxite. The companies operated these mines largely as enclaves, with foreign capital, foreign management and self-financed imports. The result of this policy was that mining rapidly eclipsed agriculture as the main source of foreign exchange and public revenues.

Guinea possesses over one-half of the world's known deposits of bauxite. The profitability of bauxite mining, however, depends largely on world prices which can be quite volatile. Two new bauxite mines were opened in 1973 and with mineral prices relatively high in the mid-1970s, the Guinean economy experienced several years of growth. But prices declined in the late 1970s and 1980s and bauxite production has fallen from a peak of 14.7 million tons in 1979 to about 12 million tons in the early 1980's.

The GOG owns 48 percent of the largest bauxite mine, Compagnie des Bauxites de Guinee (CBG) and collects 65 percent of its profits. CBG, together with the other foreign-owned mines, provided 97 percent of all officially recorded foreign exchange earnings in 1985. But the bauxite mines are currently operating at close to full capacity, so that, unless new mines are opened up or prices increase, the country will derive little, if any, economic growth from the bauxite sector in the near future.

Guinea also has rich deposits of iron ore, gold, and diamonds. Deposits of uranium and traces of offshore oil have also been recorded. An iron ore deposit at Mount Nimba near the Liberian border is said to be among the world's richest, but, despite years of study, has not yet been exploited. A political problem that has interfered is that the mine's distance from Conakry makes it more economical to ship the ore out through Liberia than through Guinea. Gold is a traditional Guinean export which, during the First Republic, was mined mostly by individuals and sold in neighboring countries where the price was considerably higher than that offered by the Guinean government. Diamonds were also smuggled out of the country during the Sekou Toure regime. Smuggling will not soon disappear, but with the liberalization of the economy official exports of gold are expected to increase by 1991 to four tons per year and the annual yield from diamond production is expected to increase over its current level of 200,000 carats.

Manufacturing has contributed little to the Guinean economy since independence. Private manufacturing during the Sekou Toure regime was artisanal and mostly underground. With the partial liberalization that began in the last years of the First Republic and that has gained momentum since, there are several thousand such concerns now operating openly, but they are still mostly artisanal and family-owned, relying on tiny local markets. Larger manufacturing enterprises were all state-owned under the First Republic and almost all of them were unprofitable, operating at 30-40 percent of capacity and relying on state subsidies for a third of their operating receipts.

Of the 44 state-owned industrial enterprises inherited from the First Republic, the new government has decided, to shut down 17 completely, to retain only one as wholly state-owned, and to seek partial or complete privatization of the others. To date, eight enterprises destined for privatization have been wholly or partly taken over by private investors; the 16 others are at various stages of privatization, ranging from a search for investors to active negotiation with interested parties. One of the reasons for the relatively slow pace of privatization is reluctance on the part of the GOG to allow foreign investors, and particularly any single country, to become dominant in the ownership of private Guinean industries.

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The commercial sector has been the most visible beneficiary to date of the economic reform. Although private trading was never entirely suppressed under Sekou Toure, the government's official policies resulted in chronic shortages of consumption items. Today, markets are once again replete with a wide variety of consumer goods. Many small shops have opened in Conakry and in the rural areas since the government officially closed in 1985 the 33 state-owned provincial stores that previously had been the sole authorized sales outlets for imported goods. Altogether the government has closed to date all but seven of the 80 commercial enterprises inherited from the First Republic.

The private industrial and commercial sector remains unarticulated, unorganized and underfinanced. A Guinean Chamber of Commerce, which was formed in May 1986, has laid plans to organize its members into trade associations but, for lack of experience and finance, and suffering also, according to its own perception, from the lingering hostility of public agencies, has made little progress in this regard. Credit for private enterprise through the formal banking community also remains scarce. The three commercial banks that opened their doors in late 1985 have offered mainly fee-based operations such as documentary credits, transfers and foreign exchange transactions. In August 1986, outstanding credit from the formal financial sector amounted to less than 1 percent of gross national product. Two lines of credit for small and medium-size industries -- one from the World Bank, the other from the EEC -- were established in 1983, but to date have authorized loans to only 13 projects. A major stumbling block is reportedly the scarcity of equity financing for new businesses as well as the lack of credit for local operating expenses (the World Bank line of credit finances only the foreign exchange costs of the new businesses). The USAID-sponsored National Center for the Promotion of Private Investments, meanwhile, has produced a number of feasibility studies for private investors, mainly in agribusinesses, but so far none of these has resulted in new investments for Guinea.

## Human Resources

### Formal Education

Initial access to formal education in Guinea is extremely limited, but once in school students, spurred until recently by the promise of guaranteed employment for graduates, tend to stay the course. Only 27 percent of school age children attend primary school, one of the lowest rates in Africa. However, the school attendance rate in secondary school is about 15 percent and for tertiary education 7 percent, which are among the highest rates in West Africa.

This high promotion rate has resulted in an overproduction of university graduates relative to middle- and lower- level personnel. In agriculture, for example, there were, until 1985, 33 agricultural faculties in Guinea but no agricultural training facilities at the secondary level. By the late 1970s, the supply of agricultural university graduates was already twice the demand in the public sector. The imbalance was even greater for engineers with the supply in the late 1970s five times greater than demand.

The quality of education in Guinea compared to other West African countries is poor. Until recently, all teaching in elementary schools occurred in one of six national languages. Although French was taught as a subject in the elementary schools, many students were poorly prepared to assimilate lessons at the secondary level where all courses were taught in French. The number of schools, the quality of teachers, and the availability of materials has not kept pace with increases in the school age population. The incidence of grade repetition in 1983-1984 compared to 1978-1979 is 52 percent higher in the first grade, 174 percent higher in the sixth grade and 61 percent higher in the 10th grade. In 1983, 60 percent of primary school teachers and 75 percent of secondary school teachers had not achieved the qualifications for teaching at those levels.

### Vocational Education

During the First Republic, priority was at times given to vocational education. At present, 35 schools provide vocational training to about 8000 students who have completed the first cycle of secondary school. Fourteen of these schools provide training in industrial trades, nine schools aim at preparing trainees for jobs in the services sector, two schools now specialize in agricultural training, seven are teacher training schools, and the two others provide pre-service training for work in the post office and the railroad.

There is no data on the labor market for skilled workers in Guinea, so it is not possible to say how well the numbers of workers produced by these schools matches supply to demand. The quality of training offered in vocational schools, however, is considered to be very poor. Much of the equipment in the schools is old, of multiple origins, and out of order. One indicator of the results of vocational training in Guinea is employer preferences for skilled labor. Informal surveys have revealed that most skilled workers currently employed on construction sites in Conakry are Senegalese or other non-Guinean Africans.

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## Adult Education

Facilities for training or retraining of adults in Guinea are extremely sparse. Before independence, a number of facilities were provided through private organizations, mainly churches, but in 1965 all these organizations were nationalized and transformed into public schools. The First Republic launched a number of adult literacy campaigns but with little success. The campaign were highly politicized and ideological, with literacy taught exclusively in one of eight national languages. Today, it is estimated that about 90 percent of the adult population is illiterate. Since 1984 private schools have again been legal in Guinea, but only a few have been created.

Technical training for adults has consisted almost exclusively of courses designed to upgrade the skills of civil servants and has been carried out, for the most part, by the technical ministries. A particular case is the Ecole Nationale des Arts et Metiers (ENAM), which was established with the assistance of AID and the Organization for Rehabilitation and Training (ORT) in the early 1960s as a vocational training center for craftsmen and skilled workers. Following the departure of AID from Guinea in 1968, ENAM was transformed into a university department. At this time, negotiations are under way between ORT and the GOG to return ENAM, with renewed assistance from ORT, to its original objective.

Another initiative currently underway is that of Opportunities Industrialization Centers (OIC), an American non-governmental organization (NGO) that is the beneficiary of a cooperative agreement with AID. OIC is planning to open a center in Conakry aimed at providing training to young guineans (aged 16-25) in carpentry, masonry and business management. OIC will finance the center's operations for three years during which the time 300 Guineans will receive training in business management and 160 each in carpentry and masonry. At the same time, the board of directors and the staff of the center will receive training in program planning, resource mobilization, public relations and other skills needed to ensure the continuation of center's operations after OIC financing is terminated.

## Human Resources Policy

In human resources development as in other fields, the Second Republic has departed dramatically from the policies of the First Republic. In the past, training programs were aimed at preparing high- and middle-level cadres for employment by the state. But the proliferation of training institutions in certain fields (such as agriculture). The lack of consideration of how the outputs of training institutions would meet real demand, and the virtual absence of quality control indicated that training policies and programs were, in practice,

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created and modified casually and spontaneously, probably in response to short-term political considerations. Since 1985, the government has abandoned its policy of guaranteeing employment to graduates and has, at the same time, shifted resources from higher level education to elementary education and vocational training. The most dramatic example of this policy shift is the closing of 30 of the 33 agricultural facilities. The governement has also placed a priority on improvements in the quality of education at all levels. It is in this context that the policy of using national languages for instruction in the elementary schools has been abandoned in favor of using French as the language of instruction at all educational levels throughout the country.

These shifts, however, do not yet constitute a fully articulated and coherent human resources development policy. Fundamental policy questions — for example, quantitative targets, sources of education finance, and the role of the private sector — have yet to be resolved. To make further progress in human resources development policy and programming, the government needs to understand first the nature of its labor market and, second, the possibilities of expanding or restructuring its education system.

## Health and Population

Reliable health data are generally unavailable in Guinea, but the overall health of the Guinean population is considered to be poor compared to other African countries. It is estimated that life expectancy at birth is only 37 years and that one in three children die before reaching the age of five years.

Infectious diseases and parasites are the principal causes of morbidity and mortality, but the underlying reasons for poor health in Guinea are poverty, malnutrition, inadequate housing, poor hygienic practices, and lack of access to potable water. The FAO has calculated that the caloric deficiency in the average daily diet is about 19 percent and the protein deficiency is 28 percent. Virtually no one in the rural areas and only about 20 percent of urban dwellers have year-round access to safe drinking water. Thatched roof houses and free-standing garbage provide breeding grounds for disease-bearing insects and rodents. With respect to health care, hospitals and health centers are poorly equipped and have limited supplies; most health care personnel are poorly trained; and, only about six percent of Guinean children are vaccinated against common childhood diseases.

Government policy in health places priority on (1) reducing death and illness from epidemic diseases; (2) developing health programs for high risk groups, particularly women and children; (3) increasing the population's access to clean drinking water; (4) improving personal and environmental hygiene; and (5) improving nutritional standards through increased food production. Emphasis has also been placed on increasing the rate of child survival, decentralizing health sector management, improving the technical and managerial capacity of Ministry of Health staff, and establishing a cost recovery program for some public health services. In a reversal of First Republic policy, the current government is encouraging the participation of the private sector in the provision of health services, particularly in the rural areas. At present there is an over-concentration of health resources -- hospitals, clinics, equipement, materials, and personnel -- in Conakry relative to the provinces.

The estimated population growth rate in Guinea is still below the weighted average for Sub-Saharan Africa, but is expected to accelerate with decrease in child mortality and improvements in overall health care and sanitation. The government has yet to announce a formal population and family planning policy, but maternal and child health programs now include family planning components. In addition, contraceptives are now available in private pharmacies and through the Guinean Assocition for Family Well Being, a private organization that was officially recognized by the government in 1985. The rapid growth of private pharmacies and clinics in 1986, the first year such private businesses were permitted, has increased the quantity and quality of available medical services.

## Transportation

Among the biggest constraints to Guinean development, whether in agriculture or any other sector, is the extremely poor nature of the country's transportation system.

The road system consists of 1,150 km of paved roadway, 3,500 km of improved gravel and earth roads, 350 km of other "classified " roads, and an estimated 2,000 km of dirt track. The quality of these roads is among the worst in Africa. The country's approximately 21,000 vehicles handle the quasi-totality of freight and passenger transport. These vehicles are of multiple origin and most are old and poorly maintained.

The country's rail system consists of 662 km of public rail line running between Conakry and Kankan and 385 km of railways which are operated by the three bauxite mining companies. The mining railways are

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generally well maintained and handle about 11 million tons of freight per year. By contrast, the public rail line is in extremely bad shape. In 1984, it handled only 12,000 tons of freight and 121,000 passengers. In 1985 freight volumes were even lower and passenger traffic was discontinued altogether. It is generally considered that rehabilitation of the public rail line is not justifiable economically, especially since a partially paved road now parallels the entire line.

Guinea's two deepwater ports -- at Conakry and Kamsar -- both have specialized facilities for the handling of bauxite and alumina, the export of which constitutes the vast majority of their throughput. The Conakry Port is operated as an autonomous entity, but despite some improvements in physical facilities financed by Western donors, the port still suffers from gross inefficiencies and frequent loss and diversion of goods.

Guinea has one international airport at Conakry and nine small airports in different regions of the country. New runway and terminal facilities at the international airport were completed with EEC financing in 1984. France is providing technical assistance to improve management and services at the Conakry airport. Air Guinea, the state-owned airline, ceased international operations in 1986 as part of the World Bank structural adjustment agreement. Its domestic flights are irregular.

The debilitated condition of transportation infrastructure in Guinea, particularly the poor condition of primary and secondary roads, is a major contributor to the high costs and marginal competitiveness of agricultural produce, both on the domestic market and internationally. For this reason, improvements in transportation are seen as essential to development of the agriculture sector. The World Bank, the African Development Bank, and West Germany are taking the lead in providing the major financing for road rehabilitation.

Consistent with the overall thrust of its economic reform, the GOG is also seeking to improve the transportation network through encouragement of private initiatives. The state-owned enterprises that previously held monopolies on long-distance road transport and freight handling have been abolished. Fuel prices have been increased and negotiations are underway for privatization of fuel distribution services. Private contracting for road rehabilitation and maintenance is being encouraged.

In general, the Mission supports GOG transportation policies and investment plans. The Mission therefore proposes to provide support, through the use of food aid counterpart funds, for discrete assistance in the transportation sector.

## The Economic Reforms and the GOG Development Program

The regime that took power in 1984 recognized that the principal constraint to economic development and growth lay in the misguided economic policies of the previous regime. Accordingly, the government of General Lansana Conte has initiated a major program of economic reform which represents a startling departure from the policies of the First Republic. Whereas the policies of the previous regime were based on central planning and state socialism, the policies of the Second Republic espouse the primacy of the private sector and an overall reduction in the size and role of government. The government has announced, and already taken major steps in the implementation of broad-based and sweeping changes in public policies. With the help of the major Western donors, the government has prepared a Public Investment Program designed to spur economic growth through the revitalization of the private sector.

### Policy Reforms

In addition to reforms listed on pages 6 and 7, the principal policy changes that have been announced or have already been implemented are:

- Elimination of subsidized sales of rice to civil servants, coupled with a nearly complete liberalization of rice marketing;
- Elimination of police roadblocks which has had the effect of permitting for the first time in a generation the free circulation of goods and persons;
- Reduction in the number of ministerial portfolios from 31 to 19 and enactment of legislation to reorganize and decentralize public services;
- Promulgation of new investment codes for mining and petroleum and announcement of intent to prepare investment codes for other industries that are designed to make foreign investment attractive;
- Announcement of an educational reform aimed at correcting the top-heaviness of the existing system. Concrete reform actions have included closing of 30 of 33 agricultural universities, abandoning the policy of automatically guaranteeing state employment to university graduates, and rechanneling of resources into primary education; and,

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- Re-establishment of basic freedoms of speech, religion and association, which has resulted in the formation of numerous self-help and voluntary organizations.

Through dialogue and technical assistance, Western donors have played a major role in the formulation and implementation of these policies. Donors, including the United States, have also provided balance of payments and budget support to ease the short-term financial impact of the devaluation and other elements of the reform.

Most of the elements of the reform program have now been formulated, but many have yet to be implemented. Only small reductions have taken place in the civil service, mostly through retirement. Despite the weekly foreign currency auction, the official exchange rate of the Guinean franc to the dollar is still approximately 20 percent lower than the parallel rate. Foreign investors have been slow to manifest an interest in purchasing public industries or in starting new ones. Very little effective reorganization has taken place in the civil service where old habits of absenteeism, incomplete work days and misuse of public trust and funds persist.

Thus, despite the commendable accomplishments of the reform program, priority must be placed on a policy dialogue which ensures that the pace of reform is maintained, and on discrete interventions in training, technical and financial assistance aimed at reform implementation.

## Public Investment Program

In conjunction with the economic reform program, the government has, with the technical assistance primarily of IBRD consultants, prepared its comprehensive three-year Public Investment Program (PIP) that will be presented to the donors at Guinea's first consultative group meeting on March 18 and 19, 1987. The PIP underscores the basic objectives of a restructured Guinean economy: economic liberalization through free enterprise and revitilization of the agriculture sector. The PIP emphasizes the need for a supportive legal framework and for basic improvement in infrastructure (roads, telecommunications and energy) as preconditions to successful investment. It goes on to identify several social and economic objectives for the Public Investment Program. The social objectives are:

- Achievement of food security;
- Improved services in health, education, training, sanitation, water and electricity;
- Employment creation through stimulation of construction, manufacturing, and other industries; and,
- Improved housing.

The broad economic objectives are:

- Economic diversification;
- Public debt control and reduction;
- Improved management of public finances; and,
- Revenue sharing with local authorities coupled with improved organization and management of public enterprises.

The PIP contains also a listing and annotation of projects that have already been designed and/or are already in the implementation stage. While some of these projects have been fully or partially funded, most are still seeking international financing. At current exchange rates, the price tag for the program is $700 million: $217 million in the first year, $245 million the second year, and $238 million the third year. Donor funding is expected to cover 90 percent of these costs.

The sectoral breakdown of proposed investment is as follows:

| Sector | First Year (Percent) | Last Year (Percent) |
|---|---|---|
| Infrastructure | 34 | 47 |
| Agriculture | 27 | 27 |
| Industry | 17 | 13 |
| Social Sector (including education and health) | 17 | 12 |
| Administration | 4 | 1 |
| | 100% | 100% |

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It is clear from this sectoral breakdown that the government has placed priority on rehabilitation of basic infrastructure and on agricultural development. The list of infrastructure projects emphasizes road rehabilitation, but includes improvements in the telephone, water, and electric systems. The agricultural investments emphasize crop production through smallholder farming, but include projects in forestry, livestock, and fishing.

The Mission views this program as an ambitious but generally accurate portrayal of investment needs and priorities over the next three years. Clearly, rehabilitation of basic infrastructure, especially in transportation, is needed to attract private investment and to increase productivity. Infrastructure projects have also the added attraction of creating short- and medium-term employment, which will be needed as the reductions in the civil service and the closing down of parastatals continue. In addition, the resources targeted for agriculture appear appropriate given the consensus of all analysts that agriculture must be the leading growth sector for the Guinean economy.

As mentioned earlier, USAID/Guinea has reservations about the appropriateness of specific projects within the PIP. The Mission is also skeptical about the capabilities of the GOG and the country in general to absorb the volume of assistance requested to complete the implementation of the investment program's long list of projects, and to support the recurrent cost burden inherent in many of the projects. Despite these reservations, the Mission supports the overall directio' and content of the Guinean economic reform and public investment prograr and believes its proposed strategy is compatible with them. Accordingly, the use of the Mission's resources, as proposed in this document, are founded on the need for continued support of the economic reform program and for support of infrastructure and agricultural development.

## The Programs of Other Donors

The response of the Western donor community to the policy and development initiatives of the new Guinean government has been overwhelmingly positive. The consensus of the donors is that, for the first time in a quarter of a century, the potential for development that has always existed in Guinea has a good chance of being realized. The donors also agree, however, that Guinea's fortunes will not be reversed overnight. Patience, steadfastness and donor cooperation will be required over a number of years before the new policies and investments bring about visible and sustainable returns. It is in this context that

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the selection of USAID development interventions in Guinea must be based on coherence with overall GOG and donor community strategy as well as on the complementarities of the interventions with the programs of other donors.

As noted previously, The World Bank and the IMF are the largest donors in Guinea. In balance of payments assistance, the World Bank has obligated about $42 million and programmed another $50-60 million. The Bank also manages some $60 million in balance of payments assistance from other donors (Japan, Germany, Switzerland, and Saudi Arabia) under the rubric of its Special African Facility. In addition, the Bank's project aid, consisting of 20 discrete infrastructure and technical assistance projects, has a total value of $150 million. The IMF stand-by agreements can be worth up to about $170 million in special drawing rights which is nearly equivalent to one year's annual earnings from Guinea's bauxite industry. The first IMF agreement for $36 million signed in early 1986 was for a thirteen month period which ends in March 1987. At that time, a second agreement will be negotiated.

In terms of human presence, both the World Bank and the IMF have resident representatives and other staff in Guinea. The IMF resident representative serves as the excutive secretary of the Comite de Coordination Economique et Financiere, which is the key interministerial body responsible for the formulation and execution of the economic reform program. Four IMF experts fill key staff positions in the Central Bank, including that of Vice-Governor. Beyond its resident staff, the World Bank is providing a great deal of long- and short-term technical assistance in key areas. This includes five long-term consultants to the Bureau de la Strategie et d'Appui au Developpement (BSD) in the Ministry of Rural Development, and 482 person-months of technical assistance (including six long-term experts) to the Ministry of Plan. In addition, World Bank financial and technical assistance is being provided in education, in industrial rehabilitation, in the mining sector, in urban planning, in civil service reform, in privatization, in agricultural and livestock development, in transportation and road construction, in promotion of small and medium sized industries, in telecommunications, and in health.

French bilateral assistance consists currently of grants amounting to 55 million French francs (about $88 million). About 40 percent of this amount is in balance of payments or budget assistance. The remainder is in project assistance in such sectors as education, mining, agriculture, and large-scale infrastructure (communications, transportation, hospitals, and urban water supply). French technical assistance includes a total of 51 long-term experts already working in key ministries (Economy and Finance, Planning, Rural Development, Education) and other important organizations (Central Bank, radio and television, various public enterprises).

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In the private sector, the three new banks recently established in Guinea are endowed largely with French capital and French management and the newly created Societe Guineenne de Commerce, which has a quasi-monopoly on the inportation of basic consumption goods, is a mixed company with shares held by the Guinean government and the two giant French trading companies, CFAO and SCOA. A number of small businesses that have recently been created in Conakry are also French owned and managed. When trade is added to aid, France is now, as it was 30 years ago, clearly the dominant foreign presence in Guinea.

From 1960 through 1986, development assistance from the Federal Republic of Germany has come to a total of 337 million Deustch Marks. About one-third of this amount has been in technical assistance. The amount programmed since 1985 is 41 million DM (about $76 million). In addition to its contribution to the World Bank managed Special African Facility, recent German aid has included food aid (wheat); financial assistance in telecommunications, electricity, water supply, port rehabilitation, and agriculture; and technical assistance in health, forestry, rural development, small and medium-sized enterprises, development planning, and port administration.

Since 1982, Japanese financial assistance to Guinea has amounted to 11.2 billion yen (about $72 million). This includes a loan of 5 billion yen (about $32 million) that is included in the World Bank managed Special African Facility.

Assistance from the European Economic Community, beginning in 1986, is programmed at 114 million ECU (about $101 million). Of this amount 12.5 million ECU consists of risk capital to be managed by the European Investment Bank. Most of the remainder (almost all of it in grant funding) is to be used in various rural development projects.

Another important donor in Guinea is the United Nations. The UNDP program for the period 1987-1991 is projected at $27.7 million, an increase of $3.1 million from the previous four year period. When assistance from the UN specialized agencies is added, the total for the new period reaches approximately $40 million. UNDP assistance since the change of government in 1984 has focused on providing expertise and logistical support for the government's efforts to manage sectors that are important to economic recovery and growth.

The UNDP assistance program for 1987-1991 will focus on three areas:

- Public planning and economic management, including a study of the government's requirements for technical assistance and a training program for civil servants;

- Rural development, featuring promotion of farmer organizations and support for public services such as research and extension; and,

- Private sector promotion, including provision of experts to help in the preparation of investment codes and assistance in privatizing or increasing the efficiency of state enterprises.

The African Development Bank (ADB) has also been active in Guinea. From 1974 through 1986, the ADB had made 15 loans to Guinea totaling 142 million UC or UCF (about $164 million). Within the context of the new GOG public investment program, the ADB has expressed a particular interest in four sectors: port development, electric power production and distribution, urban water supply, and small and medium-sized industries. In collaboration with other donors, the ADB will also consider continuing non-project assistance similar to that which it is currently providing in support of the World Bank's structural adjustment program.

As is evident from the preceding paragraphs, the assistance programs of other donors in Guinea is substantial, in several cases larger than that which can be offered through USAID. In content, the programs of the other donors strikes a balance between non-project (budget, balance of payments and commodity) assistance and project assistance aimed particularly at rural development and improvements in economic infrastructure. In addition the public sector is receiving a substantial amount of technical assistance aimed at improving overall public sector management.

The USAID/Guinea program during the period of the interim CDSS will support the overall thrust of these other donor programs with emphasis on economic reform, and private sector and rural development.

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## DEVELOPMENT STRATEGY

From FY 1988 through FY 1990, USAID development assistance will be concentrated on the achievement of two specific objectives:

- Consolidation and implementation of the economic policy reform; and,

- Revitalization of the Guinean private sector.

As pointed out previously, the GOG has already made a number of policy decisions that should stimulate economic growth through a revitalized private sector. What is now needed is assistance in the implementation of these policies, budget and balance of payments assistance to alleviate the financial hardships that accompany structural adjustments, and direct financial and technical assistance to the private sector.

The choice of these objectives for the three-year period of the interim CDSS does not constitute a fundamental shift in long-term USAID/Guinea development objectives for Guinea. The long-term objective continues to be assistance in promoting economic growth, particularly through the promotion and diversification of the agriculture sector. The GOG and the donor community are in agreement that a healthy Guinean economy means moving away from the current over-reliance on mineral production and that the country's resource endowments are such that the agriculture sector presents the best hope for such diversification.

The choice of interim objectives represents an interim shift in strategy rather than a change in long-term objectives. Whereas the previous program emphasized promotion of the agriculture sector through direct assistance to applied research and production, the current program aims at the establishment of a policy framework and private sector environment needed to permit and sustain increases in agricultural production and marketing. The Mission expects that policy implementation and the promotion of private sector marketing will stimulate a significant production response as farmers increase the amount of land under production and channel surplus output into Guinean markets rather than across borders. Further increases in marketed production will be stimulated by improvements in transportation infrastructure. These improvements will set the stage for an eventual resumption of more direct assistance to the agriculture sector through a transfer of technology and imports of agricultural inputs.

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Program Options

In the development of its interim assistance program, the Mission identified the critical constraints to the achievement of the program objectives and considered several program approaches that might be used to address these constraints. The Mission considered also a number of program management factors. Among these were the availability of program (non-project) funding and food aid money relative to project funding, the financial and security difficulties associated with the provision of technical assistance, and the programs of other donors.

The principal constraints to the achievement of the selected program objectives are:

- Reticence by prospective investors borne of inexperience in the private sector and uncertainty about the intent and seriousness of government policy;
- Lingering anti-private sector sentiment in the government, exacerbated by a bloated and ineffficent government bureaucracy that frequently constrains rather than facilitates private sector development;
- Lack of a fully developed legal framework, including a credit policy and commercial codes, that would give investors and banks the confidence necessary to make long-term resource commitments in Guinea;
- Shortages of foreign exchange to finance the importation of raw materials, equipment, and essential consumption goods;
- Reluctance by the new private banks to extend credit, particularly term credit, to private businesses due to the lack of experience, collateral, and legal guarantees of potential borrowers;
- An extremely underdeveloped transportation and communications infrastructure;
- A population whose most highly trained members have obtained almost all their employment experience in the public sector;
- A human resource base with little training or experience in industrial trades or business administration; and,
- A paucity of data and analyses on the agricultural sector, especially on agricultural production systems and marketing.

The Mission considered several strategies for addressing these constraints:

- Strategies that would concentrate on one or more key sectors;
- A strategy that would concentrate on assistance to the public sector;
- A strategy that would concentrate in human resources development; and,
- A strategy that would promote discrete activities from each of the above approaches but would concentrate most resources on the promotion of private sector opportunities.

After careful consideration, the Mission has decided to adopt the last of these strategies. The following sections describe the various approaches considered, analyze their strengths and weaknesses, and explain why the last approach was chosen over the others.

## Sectoral Approaches

The Mission considered a number of program options that would concentrate on the alleviation of constraints in specific sectors associated with the program objectives. Many of these sectoral approaches were intrinsically worthy. However, some bore only tangential relation to the overall program objectives and most would not be able to produce concrete results within the short time period of this interim CDSS. In some cases, involvement in the sector was rejected altogether while in other cases, only limited involvement has been proposed.

In health, USAID/Guinea considered a program of assistance aimed at improving child survival and general health standards, both of which are objectives to which the Agency is strongly committed. The Mission recognizes that economic productivity is closely related to a healthy work force and that rates of child survival are also associated with smaller families and eventual decreases in population growth rates. However, the Mission decided not to pursue this option for two reasons: the first was the need to concentrate all available resources on support for economic reform and the second was the relatively active role of other donors in health programs. It should be pointed out, however, that an extension or follow-on to the regionally funded CCCD project in Guinea that is scheduled to end in December 1987 may result from an evaluation that will take place in May 1987. The Mission believes that the health sector activities supported by other donors combined with our own focus on improving economic policies (which will, for example, encourage

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greater availability of medicines and health services through the private sector) will make a significant contribution to the health sector during the interim CDSS period and will lay the foundation for possible direct U.S. bilateral interventions in the 1990s.

The Mission also considered a direct program of assistance in primary education, which is an identified GOG priority. There is a great need for assistance in such areas as school construction and rehabilitation, provision of textbooks and other educational materials, curriculum development and teacher training. Three considerations migitated against pursuit of this option. First, education programs are vehicles for the transmission, retention, or modification of a country's basic values. As such, they are highly political and are best assisted by multilateral donors who are perceived as having less of a politically based development program. In the case of Guinea, the World Bank, with cofinancing from the African Development Fund (ADF) and the Saudi Development Fund, already finances a large educational assistance program emphasizing primary education, vocational training, and educational planning. Second, the Guinean education system, with its centralized administration, its exam-based promotions between elementary and secondary cycles, its early specialization, and, of course, its language of instruction, which is still very European (specifically French) in structure and function; as such, technical assistance from Europeans through multilateral organizations is likely to be more effective than from Americans. Third, general education programs tend to be costly (the World Bank/ADF/Saudi project mentioned above is funded at $27 million), beyond the resources that can realistically be expected during the period of the interim CDSS.

Within the broad field of human resources development, the Mission also considered a program of assistance to agricultural or industrial vocational training centers. As with the primary education program, assistance in this area could include construction, books, equipment, materials, curriculum development, and teacher training. Such assistance could presumably be justified in terms of the need to provide skilled workers for the private sector. However, experience has demonstrated that formal school systems, and particularly European models, are poorly adapted to vocational education in developing countries. Parents and students view the formal school systems primarily as a certification mechanism leading to a salaried job, often in the public sector, with the position and salary expected being a function strictly of the certification obtained. Yet most employers do not equate certification with competence and generally insist on a period of apprenticeship from any new worker, which students emerging from vocational education programs in the formal school system tend to resist. In addition, the demand for vocationally trained workers in Guinea is unknown given the absence of reliable studies of the labor market. For these reasons, the

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Mission decided not to pursue this option, except for the posibility of carrying out short-term studies, financed through its Economic Policy Reform Support Project (EPRS) or with counterpart funds, to determine the supply and demand for certain types of skilled workers.

The Mission also considered continuation of its Forestry project, which was terminated in December 1985, by engaging the services of a U.S. PVO. However, the forestry sector does not have a direct relationship to the economic reform emphasis of this CDSS. In addition, the World Bnak and the FAO have proposed to increase their involvement in this sector. Commodities previously ordered for Mission's now terminated Community Forestry Project have been turned over to the Peace Corps for use in its forestry activities with the GOG.

Improving Guinea's transportation system is accorded strong priority in the government's Public Investment Program, particulary as it relates to stimulation of agricultural production. The extremely poor condition of Guinea's roads, especially farm-to-market roads, is a major constraint to efficient transportation and marketing of agricultural produce. However, the dollar resources available to the Mission will be insufficient to make a significant contribution in road construction or rehabilitation. The Mission has, nevertheless, already approved, and anticipates further approvals of, PL 480 Title I counterpart funds for use by the Ministry of Public Works to pay for road work done by private contractors.

Another possibility that was considered was assistance to the government's program of administrative decentralization. The Mission could help sponsor, for example, a project by which a U.S. PVO would assist a pilot community to increase its capacity to plan and manage development projects. A program of assistance of this kind would bear a direct relationship to the reform program because it would serve to promote greater efficiency in the planning and implementation of essential public services. Despite this linkage, direct involvement in the decentralization program was rejected because of the management burden on USAID/Guinea of any geographically widespread program and also because payoffs from a decentralization project could not be expected until well beyond the life of the interim CDSS. Through EPRS, however, the Mission will support studies and seminars that serve to promote understanding of the benefits of and approaches to decentralization. The Mission will also support, through the use of counterpart funds, specific activities, such as road rehabilitation and maintenance, that are financed by sub-national administrative units and implemented by the private sector.

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Public Sector Assistance

Another strategy considered by the Mission was one of concentrating its resources on the improvement of public services, particularly those that are critical to the effective implementation of the economic reform program. As part of the overall reform program, the Government is attempting to streamline public sector operations. During the First Republic, the Government grew into a vast, unwieldy apparatus of public services and public enterprises established to control virtually all aspects of the social, political, and economic life of the country. The stated objective of the Second Republic is to limit the role of the Government to the provision of essential public services. This entails elimination or privatization of most public enterprises and an important reduction in the size of the civil service. At the same time, the Government wishes to decentralize and improve the performance of those services that remain.

Not surprisingly, public service reform is encountering a certain amount of resistance from within the civil service. The cutbacks in numbers and the privatization efforts will obviously have short-term negative consequences for those who lose their jobs. Among those who will retain their jobs there are many who still believe strongly in the primacy of the public sector and in the continued need for strong state control, if not direct state operation, of productive enterprises. There remain many also who would like to retain the possibility of diverting public money and public goods for personal use. Indeed, with civil service salaries among the lowest in West Africa and with the average salary below subsistence levels in the urban economy, corruption becomes not just a matter of greed, but of survival. For the same reasons, central government officials, notwithstanding the official rhetoric in favor of decentralization, are reluctant to devolve any real power or authority to subnational units of government. The decision to bring to a halt the automatic hiring of University graduates adds another dimension to this complicated picture of civil service reform.

It is obvious that the reform program cannot succeed if it is subverted from within. Thus, one program option considered by the Mission was to concentrate its resources on various activities aimed at educating the civil service itself on the merits of the reform and especially on the benefits of privatization. To the extent that the growth of the private sector depends on efficiency in government, the Mission could also channel resources to activities aimed at improving public administration and services, especially those that are critical to the functioning of the private sector. These would include, among others, economic policy analysis and planning, budget and tax administration, government contracting, port operations, and customs administration, and public utilities.

The Mission decided, however, not to pursue this option, at least not as the central thrust of its program strategy. Such a strategy could only be carried out effectively through the use of long-term technical assistance, which the Mission wishes to minimize for reasons of cost and security. In addition, other donors, mainly the World Bank, France, and the UNDP are heavily involved already in projects aimed at improving public sector performance and the conversion of civil servants to private sector endeavors.

Another potential disadvantage of adoption of this strategy is that an overconcentration of assistance to the central government risks reinforcing the very tendencies toward state control and centralization that the economic reform is supposed to reduce. Such assistance would also have at best an indirect impact on private sector growth and diversification.

Finally, the Mission believes that program assistance coupled with policy dialogue will prove to be an effective complement to the more direct assistance of other donors in improving public sector performance. As the numbers of civil servants decrease, for example, it should be possible to increase salaries which should, in turn, have a salutary effect on the performance of the civil service.

Human Resources Development

Another strategic option considered by the Mission was to channel most resources into training and technical assistance activities designed to overcome the human resources constraints to implementation of the economic reform and promotion of the private sector. The overall justification for such an approach is that the low level of human resources development in Guinea reduces the efficiency of the public sector and diminishes the ability of potential business people to take advantage of opportunities in the private sector.

The human resources constraints in the public sector that create problems for the achievement of the program objectives are several. As mentioned previously, there remains in the civil service a pervasive if not muted anti-business sentiment. Notwithstanding the government's strong pronouncements in favor of economic liberalization, many civil servants, influenced strongly by their training and experience under the socialist ideology of the First Republic, harbor a deep-seated mistrust of private enterprise and feel that the role of government is to protect society against private sector speculation and predation. A second problem involves analytic and structural shortcomings in public economic management. As the economy shifts from a socialist to a more liberal profile, civil servants in key ministries (e.g. Planning and Finance) must be retrained in the development and management of monetary and fiscal policies, as well as in planning budgeting, and public accounting skills. A third problem involves inefficiencies in public administration. Despite some reductions in the civil service that thave already taken place, further reductions, complemented by reorganization and re-training in administrative systems and procedures, will be necessary in order to increase efficiencies in public administration and services.

The human resources constraints in the private sector are equally pervasive. During the First Republic, most private enterprise was forced underground and was limited to commercial and artisanal activities. Even before independence, the few industrial and manufacturing enterprises that existed were mostly foreign enclave activities. Today, there is an extreme shortage of individuals in Guinea with the technical and business management skills required for the rapid development of productive private enterprises.

A strategy to address these constraints would contain several elements. As with the public sector strategy, one element would be technical assistance and training aimed at key public sector ministries and agencies in order to promote policy development, policy implementation, the development of economic analysis and management skills, and more effective public administration. Training would consist mainly of in-country seminars plus limited long-term training for carefully selected participants. Studies would also be sponsored to help collect and analyze essential data needed for planning and decision making. Technical assistance, seminars and workshops could also be used to increase government appreciation for the benefits of a liberal economy. The direct contact that seminars and technical assistance would provide with key government officials would facilitate policy dialogue on critical issues relating to the implementation of the economic reform.

Private sector human resources assistance would include several activities. One would be direct training of private business people in various elements of enterprise development and business administration, including market analysis, business finance, accounting and management. At the same time, technical training could be provided in industrial trades. Another activity would be aimed at promoting organizations of private enterprises into trade associations that could benefit collectively from information exchanges and training. Training and technical assistance could be offered, perhaps through the Chamber of Commerce, in the organization of such groups. The Mission could also sponsor exchanges of various sorts with similar organizations in the United States.

A human resources development approach of this kind was also seen as having disadvantages. With respect to the public sector training, the World Bank, France and other donors are already providing technical assistance to most of the key public agencies, including the Central Bank and the finance and planning ministries, and many of these specialists are engaged in the technical advisory and training tasks outlined above. Although there remain many gaps to be filled in public sector training and technical assistance, the Government's capacity to absorb increased assistance is rapidly reaching its limit. Some government officials, moreover, have begun to question the cost-effectiveness of long-term technical assistance.

With respect to private sector training, a major disadvantage is the absence of any Guinean organization, including the inchoate Chamber of Commerce, that is sufficiently well developed to serve as the institutional host for such training activities. The provision of such assistance would have to be accompanied by an institution-building effort or would entail bringing into the country a private, or private voluntary organization. Either approach would surpass the Mission's resource limitations and would mean also increasing the number of resident Americans in Guinea.

For these reasons, the Mission has decided not to make human resources development the centerpiece of its interim development strategy. However, as will be seen in the following section, the approach that is being proposed does incorporate several of the ideas outlined above.

## The Mission's Strategy: Promotion of Private Sector Opportunities

The strategic approach that the Mission is proposing for the period of the interim CDSS is to concentrate its resources on activities that facilitate the emergence of a healthy private sector in Guinea. This will be accomplished through assistance to the government of Guinea in the implementation of its economic reform program as well as through direct assistance to the private sector. The selection of this option over others considered (as presented in the foregoing sections) is based on the recognition that many of the constraints to the achievement of the Mission's objectives cut across sectors and involve the public as well as the private sector. For this reason, the option selected, while having a clear focus on the promotion of private sector opportunities, draws selectively on ideas and activities presented in the other options.

Rationale

The Mission believes that the establishment of a soundly functioning private sector is a precondition for the revitalization and diversification for the agriculture sector, which remains the overall long-term USAID/Guinea development objective. It will still be necessary for the U.S. or other donors eventually to provide direct assistance to farmers in the development and transfer of yield-increasing technologies. However, direct production assistance of this nature will not be effective until economic policies are in place that reduce or eliminate distortions in factor use; until road networks are sufficiently rehabilitated that agricultural inputs can be delivered to, and agricultural produce collected from, farmers at reasonable cost; and, until the private sector becomes actively engaged in agricultural input and service delivery and in agricultural transportation and marketing, as well as in agricultural production and processing. In a more general sense, growth-oriented public policies and the increased availability of consumer goods that will accompany a healthy private sector will establish a climate of optimism conducive to long-term investments by all private enterprises.

To date, the response of the private sector to the government's economic reform measures has been halting. In some sectors, such as trade and commerce, the response has been rapid. Retail commercial outlets have sprung up all over Conakry with several private importers competing for their business. In 1986, which was the first year that private importers could operate freely, private traders imported 78,000 MT of rice. In addition, coffee exports through Guinean ports have increased significantly as the market price in Guinea is now able to compete with the price in neighboring countries. In other sectors, the response has been slower. In agriculture, farmers have expanded the land cultivated for food crops, but there has occurred little reinvestment in cash crop plantations. Most manufacturing is still small and informal and little in the way of domestic or foreign investment in the industrial sector has occurred.

The Mission believes that the pace of private sector investment will quicken to the extent that the implementation of the economic reform stays on course. To this end a meeting of the Consultative Group will be held in March 1987 to review the progress of the reforms and recommend whatever tactical changes are necessary to hasten their implementation. While the accomplishments over the last 18 months have been remarkable, further progress will depend on the persistence and consistency of policy dialogue, on close monitoring of policy reform implementation, and on selective provision of technical assistance by the donor community.

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Accordingly, a major portion of the Mission's resources will consist of financial and technical assistance aimed at assisting in the implementation of the economic reform program. Resources will also be used to provide a certain amount of direct assistance to the private sector and to finance related activities such as information collection and economic infrastructure rehabilitation.

An important consideration in the selection of this option was its practicality given the amount and type of resources that the Mission expects to have at its disposal and the short timeframe of the interim CDSS. The program relies mostly on the fast disbursement mechanisms of the cash grant, on local currency generations from food aid, and on short-term technical assistance that can be accessed quickly through AID Indefinite Quantity Contractors and through buy-ins to centrally- and regionally-funded projects. It also emphasizes short-term, in-country seminars rather than long-term participant training. This approach also has the advantage of having minimal recurrent costs implications.

Program Elements

The specific elements of the proposed program include:

- The use of dollar funds for balance of payments assistance, public and private sector training, short-term technical assistance, and commodity imports; and,

- The use of local currency for private sector credit, for the local components of studies and training programs, and for the rehabilitation of rural transportation networks.

Most of the program's resources will be in food aid and non-project assistance. Specific vehicles include the cash grant component of the new Guinea Economic Policy Reform Program (GEPRP) designed to provide balance of payments support and local currencies for private sector credit; the on-going EPRS component of the GEPRP that provides short-term assistance in administrative reform and policy studies; PL 480 Title I and Food For Progress programs that generate local currencies for training, road rehabilitation and other activities that support the economic reform program and private sector development; and, later, a yet to be designed Commodity Import Program aimed at providing private sector credit for the importation of agricultural lcommodities, such as tools and fertilizer.

The GEPRP cash grant is designed to help the GOG with its balance of payments difficulties and to encourage continued progress in the implementation of the economic reform program. Dollars will be made available upon satisfaction of specific conditions for the weekly foreign exchange auction. Equivalent amounts of local

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currency will be deposited in a special account that commercial banks will be able to draw upon to extend short- and medium-term credit to private businesses. The dollar disbursements will be made in two tranches tied to specific reform actions.

The proposed food aid program is seen as particularly important to the achievement of the Mission's program objectives. The food imports respond first to the food production deficit in the country that will continue until the reform and directed assistance to the agriculture sector result in substantial increases in domestic food crop production. At the same time the concessional nature of the food imports, under PL 480 Title I and Food For Progress, represent a substantial savings in foreign exchange that the government would otherwise have to provide to finance the imports. The food aid program presents also an opportunity for continued U.S. influence on substance and pace of the economic reform. At present, the provision of food aid is linked to such reform efforts as the elimination of the rice subsidy and rationing system for civil servants, the removal of official fixed prices for imported rice, further liberalization of the market for agricultural inputs, and improved security at the Port of Conakry. The program also allows for the Mission monitoring of the use of the proceeds from the food import sales to ensure that they are being used for those purposes that have been jointly agreed to by the GOG and USAID/Conakry.

The Commodity Import Program is planned to begin in FY 1989 and will emphasize agricultural inputs. The selection of specific commodities to be included in this program will depend on the results of studies to be financed under the mission's EPRS project. These studies will examine, for example, the demand for fertilizer and farm implements in various regions of the country for different types of crops.

Together, these program assistance vehicles will be used to reinforce the Mission's dialogue with the government of Guinea on such subjects as fiscal, credit and export-import policy, economically sound uses of foreign exchange, agricultural sector pricing, investment codes and privatization of state-owned enterprises. In the near-term, these vehicles will be used to encourage the government to take the final steps in closing the parastatals that still exist for the importation of agricultural inputs and the export of cash crops.

The Mission is also proposing <u>limited project assistance</u> in the form of a public and private sector training project and a project to promote private sector opportunities. The first project will provide short-term technical assistance and training aimed at improving the ability of the government and private economic agents to collect and analyze information needed for the formulation and implementation of policies conducive to the emergence and growth of the private sector.

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The second project will provide short-term technical assistance and training directly to the private sector in order to increase the ability of business people to make good use of public and private sector services, such as information and credit. Essentially, this project will build on the achievements of the currently funded Private Agribusiness Promotion Project; it will aim especially at encouraging investment in agricultural processing, agricultural marketing and other agricultural support services. It will also encourage small- and medium-sized businesses to form trade associations that could benefit from study and observation tours in more developed countries, from information exchanges, and from training and technical assistance.

## Indicators of Program Success

The Mission's selection of this policy reform and private sector program option stems largely from a determination that it is more likely than the others considered to generate concrete results over the three year CDSS period. The most visible indicator of porgram success will be the progress of the GOG in the implementation of its economic reform program. Other indicators will include:

- Increased agricultural production and a concomitant decrease in food imports;

- Increased domestic and foreign investment in productive economic sectors, especially agriculture and agribusiness;

- Improved GOG capacity to manage the economy through the establishment of more effective fiscal and monetary policies, especially those relating to providing increased credit and foreign exchange to private business;

- Improved GOG planning, budgeting and administrative capacity; and,

- Continued privatization of public enterprises and a decrease and/or rationalization of GOG regulation of private industry.

The existing data base on agricultural production, on domestic savings and investment and in other areas related to these indicators is notoriously weak. It is for this reason that some of the short-term technical assistance that will be provided over the period of the CDSS will be used to collect and analyze the data needed for informed planning and decision making. In the agriculture sector, for example, studies will be prepared on the costs of production and producer prices for Guinea's principal food and cash crops, on price sensitivities of urban food consumption, on the economics of agricultural marketing, and on the supply and demand of agricultural credit and agricultural inputs. With respect to food aid, studies will be sponsored to monitor the effect of concessional and commercial rice imports on the domestic price of rice, on producer incentives, and on the nutritional effects on urban consumers of consumer price increases. The Mission proposes also to help finance feasibility studies for domestic and foreign investors in economically productive sectors, studies related to the privatization of state-owned enterprises, and studies aimed at improving the organization and service delivery capabilities of public agencies that are important to the economic reform program.

## RESOURCE REQUIREMENTS

### Financial Resources

#### Dollars

The Mission proposes that the dollars provided during the interim-CDSS be used to finance technical assistance, training, and limited commodities to aid selected public and private sector entities to implement and take advantage of the policy reforms. Non-project assistance will be provided to promote additional policy reforms to increase productivity. Direct aid to the private sector to help finance the importation of agricultural production inputs and capital goods needed for the development of agro-industrial enterprises is also proposed. Should the budgeted funding levels not be available, USAID/Guinea plans to fund the proposed activities at the available levels. Contrarily, in the unlikely event that higher funding levels are possible, some of these proposed activities will be provided more funding and, perhaps, a more important start could be made on the agriculturally-oriented activities which are to be initiated at the end of the CDSS period. Approximately $50,000 in PD and S funds will be needed in the last half of FY 1987 to engage the services needed to design the new private sector project.

Proposed Assistance Planning Levels
Based on FY 1988 APPL Budget
( million dollars )

| | FY 1987 | FY 1988 | FY 1989 | FY 1990 |
|---|---|---|---|---|
| Grants | 4.66 | 7.59 | 8.23 | 10.00 |
| Loans | - | - | - | - |
| PL-480 | | | | |
| Title I/FFPR | 16.00 | 12.00 | 12.00 | 12.00 |
| Title II | - | - | - | - |
| Total Resources | 20.66 | 19.59 | 20.23 | 22.00 |

NOTE: Inflation in Guinea is expected to continue at an average rate of approximately 30 percent per year. As a result, the value of the assistance program proposed for the interim CDSS period will decrease even if the FY 1988 ABS assistance levels remain unchanged. Also, note that dollar values of PL 480 Title I and Food for Progress (FFPR) rice are subject to actual food needs, the cost of rice and ocean freight rates.

The following attempts to provide a graphic view of current and proposed assistance elements as well as the evolving nature of the mission portfolio over the CDSS planning period.

## Proposed Assistance Elements

FY 1986 FY 1987 FY 1988 FY 1989 FY 1990

1. Bilateral

Smallholders
Agribusiness
AEPRP
EPRS
Public
Sector Trng
Prvt Sector
Opportunities
Prvt Sector
Inputs
(CIP)
Ag Credit

2. Central

CCCD
AMDP

3. Food Aid

Title
I
Title II
Sec 416
Food for
Progress

Planned
Subject to food needs to be determined annually

### Activity Portfolio
(At end of FY)

| | FY 1986 | FY 1987 | FY 1988 | FY 1989 | FY 1990 |
|---|---|---|---|---|---|
| Project | 3 | 3 | 3 | 2 | 3 |
| Program | 1 | 1 | 1 | 1 | 1 |
| Central | 2 | 2 | 0 | 0 | 0 |
| Food | 3 | 2 | 1 | 0 1/ | 0 1/ |
| Total | 9 | 8 | 5 | 3 | 4 |

1/ Subject to food assistance needs

## Local Currency

USAID/Guinea plans to jointly program with the GOG food assistance generated local currency to finance those activities which support its assistance strategy. The Mission envisages that these funds will be used to fund the following priority areas: civil service reform, infrastructure rehabilitation and maintenance; in-country training; budget support for recurrent costs; studies, including data collection; and, support of Peace Corps, private voluntary organizations, and other doner activities.

### Projected Local Currency Availabilities

| Program | FY 1986 | FY 1987 | FY 1988 | FY 1989 | FY 1990 |
|---|---|---|---|---|---|
| Food Assistance | | | | | |
| AEPRP | | | | | |
| Prvt Sector Inputs (CIP) | | | | | |

### Projected Local Currency By Year of Initial Availability (In equivalent $ million)

| | FY 1986 | FY 1987 | FY 1988 | FY 1989 | FY 1990 |
|---|---|---|---|---|---|
| Food Assistance | 4.6 | 6.2 | 5.5 | 3.3 | 3.3 |
| AEPRP | - | 5.0 | 5.0 | - | - |
| Prvt Sector Inputs (CIP) | - | - | - | - | 2.0 |
| Total | 4.6 | 11.2 | 10.5 | 3.3 | 5.3 |

## Staffing and Operating Expense Implications

The proposed focus of the USAID/Guinea program on support of the economic policy reform program and promotion of an increased role for the private sector necessitates adjustments in the present composition of Mission staff. While the number of individual projects to be managed will be limited, the increase in assistance to Guinea during the life of the interim CDSS will require a small net increase in staff. However, the Mission expects to be able to make most of these changes within the currently projected personnel ceilings.

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The emphasis on support of policy reform and program assistance requires an increase in the Mission's analytical capability especially in the area of economics. This will be achieved by the addition of the Program Economist position approved under the FY 1988 ABS. The increased activities in the areas of human resources and institutional development call for a USDH Human Resources Development person. The Mission plans to fill this position by re-SPARing immediately the present Agricultural Development Officer slot to that of a Human Resources Development Officer. An IDI position was also approved in the Mission's FY 1987 and FY 1988 position allocations. While the speciality of this position will be determined by the availability of candidates and the USDH employees on-board, the Mission hopes the IDI will position will also be in economics. The Project Development Officer position will be re-SPARed when the incumbent departs to that of Agricultural Development Officer, reflecting the need to begin the assistance program's transition in the latter part of the CDSS period from support of economic reforms to development assistance directed at the agricultural sector. An increase in PSC positions will be needed to improve overall Mission management, to manage the food assistance program, and, with the approval of the commodity import program for the private sector, to manage this labor intensive, but essential aspect of the USAID/Guinea's proposed assistance portfolio. Staff from REDSO/WCA will be called upon as needed to help in areas where the mission is deficient in certain skill areas.

The recent ability of the Mission to hire Guineans at competetive salaries has enabled it to increase the number and quality of its direct-hire host country national staff. The Mission plans to recruit more professional Guinean staff and will devote more time and money to training them. This will allow USAID/Guinea to manage its workload without a significant increase in USDH staff. There are presently three senior professional Guinean staff positions: Program Assistant, Financial Analyst, and Economist. The Mission plans to increase the number of HCN professional contract positions to assist in the management of the growing activities in the area of human resources development, especially the management of intensive short-term participant training programs.

A summary of the Mission's actual, on-board staff and projected staffing pattern follows:

| Position | ACTUAL (2/24/87) | FY 1988[1] | FY 1989 | FY 1990 |
|---|---|---|---|---|
| USDH | | | | |
| AID Affairs Officer (AAO) | 1 | 1 | 1 | 1 |
| Program Officer | 1 | 1 | 1 | 1 |
| Agricultural Development Officer | 1 | 0 | 0 | 1 |
| Project Development Officer | 1 | 1 | 1 | 0 |
| Program Economist | 0 | 1 | 1 | 1 |
| IDI (Economics) | 0 | 1 | 1 | 1[2] |
| Human Resources Development | 0 | 1 | 1 | 1 |
| Sub-total | 4 | 6 | 6 | 6 |
| USPSC | | | | |
| Management Officer[3] | 0 | 1 | 1 | 1 |
| Food for Peace[3] | 0 | 1 | 1 | 1 |
| Program Assistant/Training Officer[4] | 1 | 1 | 0 | 0 |
| CIP Manager | 0 | 0 | 1 | 1 |
| Sub-total | 1 | 3 | 3 | 3 |
| FNDH | | | | |
| Program Assistant | 1 | 1 | 1 | 1 |
| Economist[3] | 0 | 1 | 1 | 1 |
| Financial Analyst | 1 | 1 | 1 | 1 |
| Sub-total | 2 | 3 | 3 | 3 |
| Local Contracts | | | | |
| AAO Secretary | 1 | 1 | 1 | 1 |
| Translator | 1 | 1 | 1 | 1 |
| Bilingual Secretary | 2 | 2 | 2 | 2 |
| Mail and File Clerk/Typist | 1 | 1 | 1 | 1 |
| Administrative Assistant | 1 | 1 | 1 | 1 |
| Accounts Maintenance Clerk | 1 | 1 | 1 | 1 |
| Training Assistant | 0 | 1 | 1 | 1 |
| Messenger/Janitor | 1 | 1 | 1 | 1 |
| Drivers | 3 | 4 | 4 | 4 |
| Sub-total | 11 | 13 | 13 | 13 |
| TOTAL | 18 | 25 | 25 | 25 |

(1) Includes last quarter of FY 1987
(2) May want to change backstop of IDI to agriculture at this time.
(3) Recruitement for these positions is underway and all should be filled by the end of third quarter of FY 1987.
(4) Incumbent's contract expires in December 1987.

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It is to be noted that the above does not include residential and office guards hired under a local non-personal services contract. The number of these guards is expected to increase from a late FY 1987 level of 31 to about 42 in mid FY 1989. It is also to be noted that the above does not represent a net increase in the number of AID funded U.S. citizens working in Guinea. This is due to the departure in FY 1986 and FY 1987 of eight contractors who were working under bilateral projects that were closed.

Operating Expense requirements will rise from the current FY 1987 planned level of about $1.3 million to near $1.6 million in FY 1989 as all U.S. direct hire and host country national contract positions are filled. An increase in office rents due to increased staff to meet program demands, the straightlining of housing rents due to projected increased availabilities on the market, increased use of WANG PC's, the expected increase in use of individual generators, and an increase in host country national professional staff will necessitate further increases in OE through FY 1990 at which time OE requirements are expected to stabilize at around $1.8 million. The increase in staff will require that serious consideration be given to acquiring a new USAID/Guinea office space in late FY 1988.

Concluding Considerations

Resource levels for the period of the interim CDSS are based on the increases projected in the FY 1988 ABS and reflect the priorities established in this document. The focus on policy reform suggests non-project rather than project assistance. To facilitate the policy reform and dialogue process, technical assistance and training will be included to strengthen the GOG's capabilities to plan and implement its reform program. Discrete projects are proposed for training, human resources development, and private enterprise and investment development.

The Mission expects the need for increased program assistance to grow as the GOG's export earnings decline and the absorptive capacity for project implementation remains low because of human resource constraints. Non-project assistance will help address key policy reform issues at a time when increased needs for foreign assistance will provide more leverage. Based on the Mission's experience to date, the conditions precedent to the disbursement of funds have forced the GOG and other donors to take a harder look at continued state involvement with agricultural production, marketing, distribution and the import of inputs. We foresee similar results from future program assistance. Technical assistance, through the Economic Policy Reform Support Project, and other activities will finance studies, provide policy options, and develop implementation schedules for restructuring the system for the distribution of agricultural inputs and the export of cash crops.

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Human resources and institutional development and private sector promotion activities will require additional technical assistance, although much of it will be provided by short-term consultants. Direct assistance to the private sector through technical assistance and the Commodity Import Program will enable it to take advantage of the opportunities opening in the Guinean economy. The concentration of efforts in these areas will allow the Mission to conserve and protect previous investments and, as proposed in this interim Strategy, provides assistance in areas where the U.S., in comparison with other donors, has a definite comparative advantage. This approach will also permit the gaining of experience and the collection of information which will be needed to prepare as scheduled a full CDSS in FY 1989 or FY 1990.

# ANNEX A

## STATISTICAL DATA

The extreme weakness of the statistical base in Guinea makes all data subject to a very high margin of error. In view of this weakness, all data in the following tables should be interpreted with caution. The reader should accept the data only as an indicator of trends.

## Balance of Payments
( $ millions)

| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|
| Trade Balance | 106 | 91 | 121 | 88 | 99 | 110 | 127 |
| Exports, f.o.b. | 506 | 463 | 499 | 489 | 523 | 564 | 610 |
| Bauxite and alumina | 488 | 415 | 417 | 378 | 385 | 392 | 407 |
| Other | 18 | 48 | 82 | 112 | 137 | 172 | 203 |
| Imports, c.i.f. | -400 | -372 | -378 | -402 | -423 | -454 | -483 |
| Public 1/ | -250 | -182 | -149 | -157 | -163 | -174 | -183 |
| Mixed Mining Companies | -143 | -116 | -117 | -121 | -123 | -128 | -134 |
| Other Private 2/ | -7 | -74 | -112 | -123 | -137 | -152 | -166 |
| Services and net Private transfers | -179 | -165 | -174 | -166 | -170 | -172 | -176 |
| Interest on Public Debt 3/ | -27 | -35 | -34 | -33 | -31 | -28 | -23 |
| Interest on Financing Gap 4/ | -25 | -30 | -37 | -47 | -53 | -61 | -70 |
| Other Public Sector (net) 1 | -35 | -25 | -28 | -31 | -34 | -35 | -35 |
| Mixed Mining Companies (net) | -87 | -76 | -82 | -74 | -76 | -78 | -78 |
| Other Private (net) | -5 | 1 | 7 | 19 | 24 | 30 | 30 |
| Public Transfers | 18 | 17 | 19 | 21 | 23 | 25 | 25 |
| Current Account Balance | -55 | -57 | -34 | -57 | -48 | -36 | -24 |
| Capital Movements (net) | -34 | -88 | -76 | -59 | -34 | -43 | -65 |
| Public Capital, long-term | -31 | -54 | -56 | -43 | -25 | -18 | -9 |
| Disbursements | 69 | 62 | 61 | 65 | 70 | 78 | 78 |
| Amortization 3/ | -100 | -107 | -117 | -108 | -95 | -96 | -87 |
| Public Capital, short-term | 14 | -13 | — | — | — | — | — |
| Amortization of financing of Gap | — | — | -6 | -7 | -9 | -36 | -67 |
| Mixed Mining Companies (net) | -17 | -26 | -24 | -24 | -19 | -15 | -15 |
| Other Private (net) (including direct investment) | — | 5 | 10 | 15 | 20 | 25 | 25 |
| Errors and omissions | -8 | — | — | — | — | — | — |
| Overall Balance | -97 | -145 | -110 | -116 | -81 | -80 | -89 |
| Financing Items | 97 | -108 | 17 | — | -6 | -16 | -9 |
| IMF Credit | — | 21 | — | — | -6 | -16 | -9 |
| Purchases | — | 27 | 6 | — | — | — | — |
| Repurchases | — | -6 | -6 | — | -6 | -16 | -9 |
| Other Reserve Movements (net) | 11 | -17 | — | — | — | — | — |
| Medium and Long-term Debt Arrears | 79 | -346 | — | — | — | — | — |
| Other Liabilities | — | -20 | — | — | — | — | — |
| IDA and Cofinanciers | 7 | 85 | 13 | — | — | — | — |
| Paris Club Rescheduling | — | 169 | 4 | ... | ... | ... | ... |
| Financing Gap | — | 253 | 93 | 116 | 87 | 96 | 98 |

Sources: International Monetary Fund. 1986. "Guinea: Staff Report on the First Review Under the Stand-By Arrangement and Request for Modification", July 23, 1986 Washington: International Monetary Fund. Page 13.

1/ Government and Public Enterprises.
2/ Excludes imports without use of official foreign exchange
3/ Scheduled Obligations
4/ Assumes interest rate of 8 percent; for 1985, represents late interest

TABLE 2

Effect of Re-Scheduling on
Debt Service to Export Receipts Ratio
(%)

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|
| Before | 28.5 | 26.4 | 28.5 | 24.0 | 22.0 | 20.4 |
| After | 14.4 | 30.8 | 33.8 | 28.9 | 29.5 | 31.2 |

Source: GOG Consultative Group Document, January 5, 1987 draft.

TABLE 3

SENSITIVITY OF TRADE BALANCE TO EXPORT PRICES
OF ALUMINA AND BAUXITE, 1985
( $ millions)

| Category | FOB Price[1] | Equilibrium Price[2] | Market Price[3] |
|---|---|---|---|
| Bauxite | 380.3 | 300.4 | 277.5 |
| Alumina | 101.6 | 83.0 | 69.6 |
| Other | 20.0 | 20.0 | 20.0 |
| Total Exports | 501.9 | 403.4 | 367.1 |
| Imports | 428.6 | 428.6 | 428.6 |
| Trade Balance | 73.3 | -25.2 | -61.5 |

1. Actual price paid by mining companies to GOG
2. Company break-even price
3. World market price

Source:
Government of Guinea, Ministry of Plan, "Diagnostic et Stratégie: Premiers Eléments", July 1986, p. 45.

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TABLE 4

Sectoral Destination of Imports
1984-1991
(Percent)

| Category | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|
| Public | 65 | 63 | 49 | 39 | 39 | 39 | 38 | 38 |
| Mixed Mining | 35 | 36 | 31 | 31 | 30 | 29 | 28 | 28 |
| Other Private | 00 | 02 | 20 | 30 | 31 | 32 | 33 | 34 |

Source:
International Monetary Fund, EBS/86/163, July 24, 1986

TABLE 5

PRODUCTION OF MAJOR AGRICULTURAL COMMODITIES
1980 - 1985
(000 metric Tons)

| CATEGORY | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| Coarse Grains | 162 | 178 | 185 | 182 | 200 | N/A |
| Maize | 57 | 53 | 50 | 39 | 56 | 55 |
| Millet/Sorghum | 54 | 65 | 70 | 73 | 74 | N/A |
| Fonio | 51 | 60 | 65 | 70 | 70 | 70 |
| Roots & Tubers | 782 | 785 | 844 | 834 | 848 | N/A |
| Rice | 291 | 300 | 300 | 300 | 300 | 300 |
| Pulses | 30 | 32 | 32 | 25 | 28 | N/A |
| Palm Oil | 42 | 42 | 45 | 45 | 45 | 45 |
| Groundnuts | 83 | 83 | 85 | 75 | 75 | 75 |
| Eggs | 7 | 8 | 9 | 10 | 11 | N/A |
| Milk | 45 | 46 | 47 | 49 | 48 | N/A |
| Sugar | 220 | 220 | 245 | 225 | 225 | N/A |
| Fruits | 674 | 677 | 703 | 710 | 726 | N/A |
| Indigenous Meats | 24 | 24 | 25 | 25 | 25 | 24 |
| Cattle | 21 | 22 | 22 | 23 | 22 | 22 |
| Goat | 1 | 1 | 1 | 1 | 1 | 1 |
| Sheep | 1 | 1 | 1 | 1 | 1 | 1 |
| Poultry | 9 | 11 | 12 | 13 | 14 | N/A |
| Palm Nuts | 35 | 35 | 35 | 35 | 35 | 35 |
| Coffee, green | 15 | 15 | 15 | 15 | 15 | 15 |
| Cocoa Beans | 4 | 4 | 4 | 4 | 4 | 4 |
| Meat for Trade | 19 | 19 | 20 | 20 | 20 | 19 |
| Beef and Veal | 18 | 18 | 19 | 19 | 19 | 18 |
| Mutton/Lamb | 1 | 1 | 1 | 1 | 1 | 1 |

Source:
Food and Agriculture Organization of the U.N., 1985 data file "Prod." (Data differs markedly from IBRD estimates of production in 1981 given in IDA/GUI-4672, 4/15/84, p. 11. Bank estimates are higher than the FAO's - except for millet/sorghum.) The Bank's "World Development Report 1986" estimates Guinea's 1984 population at 6 million (Table 25, p. 228).

TABLE 6

GUINEA: INDEX OF AGRICULTURAL PRODUCTION FOR INTERNAL MARKETS
1976 - 1985
(1977 = 100)

| CATEGORY | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|
| Rice | 101.8 | 100.0 | 87.4 | 83.1 | 69.6 | 71.8 | 71.8 | 71.8 | 71.8 | 71.8 |
| Maize | 111.0 | 100.0 | 101.0 | 76.5 | 92.5 | 86.0 | 81.1 | 63.3 | 90.9 | 89.2 |
| Millet/Sorghum | 111.0 | 100.0 | 101.0 | 102.1 | 75.6 | 89.7 | 97.4 | 101.6 | 102.9 | N/A |
| Fonio | 111.0 | 100.0 | 101.0 | 103.0 | 75.6 | 88.9 | 96.3 | 103.7 | 103.7 | 103.7 |
| Roots & Tubers | 96.9 | 100.0 | 101.1 | 82.0 | 98.0 | 98.4 | 105.8 | 104.5 | 106.3 | N/A |
| Pulses | 98.2 | 100.0 | 107.1 | 107.1 | 107.1 | 114.3 | 114.3 | 89.3 | 100.0 | N/A |
| Palm Oil | 92.6 | 100.0 | 107.4 | 105.8 | 111.1 | 111.1 | 119.0 | 119.0 | 119.0 | 119.0 |
| Groundnuts | 99.0 | 100.0 | 101.0 | 102.0 | 102.2 | 102.8 | 105.3 | 92.9 | 92.9 | 92.9 |
| Eggs | 94.6 | 100.0 | 107.1 | 114.3 | 125.0 | 139.3 | 151.8 | 166.1 | 182.1 | N/A |
| Milk | 97.1 | 100.0 | 102.8 | 105.7 | 109.5 | 111.9 | 114.8 | 118.1 | 115.4 | N/A |
| Sugar | 100.0 | 100.0 | 113.8 | 151.7 | 151.7 | 151.7 | 169.0 | 155.2 | 155.2 | N/A |
| Fruits | 99.6 | 100.0 | 100.7 | 101.2 | 101.8 | 102.3 | 106.2 | 107.3 | 109.7 | N/A |
| Meat & Poultry | 92.3 | 100.0 | 104.8 | 112.5 | 117.3 | 124.4 | 130.2 | 137.0 | 139.5 | N/A |

Source:
Food and Agriculture Organization of the U.N., 1986 data file "Prod."

(Data differs markedly from IBRD estimates of production in 1981 given in IDA/GUI-4672, 4/15/84, p. 11. Bank estimates are higher than the FAO's - except for millet/sorghum.) The Bank's "World Development Report 1986" estimates Guinea's 1984 population at 6 million (Table 25, p. 228).

ANNEX B

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